

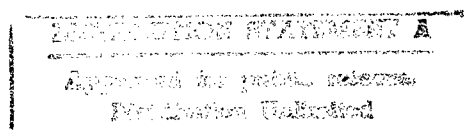
087035

JPRS-CEA-86-013

6 February 1986

# China Report

ECONOMIC AFFAIRS



19980722 144

DTIC QUALITY INSPECTED 2

**FBIS**

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
U.S. DEPARTMENT OF COMMERCE  
SPRINGFIELD, VA. 22161

0  
141  
A57

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

11

6 February 1986

## CHINA REPORT ECONOMIC AFFAIRS

### CONTENTS

#### PEOPLE'S REPUBLIC OF CHINA

##### NATIONAL POLICY AND ISSUES

- Self-Owned Status Sought for State-Owned Enterprises  
(Zhang Bingguang; FUJIAN LUNTAN, No 10, 1985) ..... 1
- Impact of Technological Revolution on Small Cities, Towns  
(Zhang Jingzong, Zhang Zhangeng; JISHU JINGJI YU  
GUANLI YANJIU, No 4, 1985) ..... 6

##### ECONOMIC DEVELOPMENT ZONES

- Zhanjiang, Beihai, Hainan as Special Zone Discussed  
(Zhong Yechang; GANG AO JINGJI, No 10, 25 Oct 85) ..... 12

##### ECONOMIC PLANNING

- Government To Encourage Production for Export  
(XINHUA, 11 Jan 86) ..... 18

##### ECONOMIC MANAGEMENT

- Shanghai Overfulfills Tax Quota for 1985  
(Wang Hongyang; RENMIN RIBAO, 17 Dec 85) ..... 19
- PRC To Set Up National Federation of Individual Businesses  
(Yang Yi; CHINA DAILY, 10 Jan 86) ..... 21
- Investigation Aims To Improve Arbitration Work  
(XINHUA, 11 Jan 86) ..... 24
- Industries Raise Efficiency in Past Five Years  
(XINHUA, 13 Jan 86) ..... 25

|  |    |
|--|----|
| New Problems Posed for Planned Management System Reform<br>(Xue Muqiao; JINGJI RIBAO, 12 Oct 85) .....             | 26 |
| Better Quality Control Needed in Collective Enterprises<br>(Zhu Rongji; JINGJI RIBAO, 23 Oct 85) .....             | 32 |
| Sichuan's Economy Invigorated Through Reform<br>(Niu Po; SICHUAN RIBAO, 25 Oct 85) .....                           | 36 |
| Three Problems Concerning Reform of Key Cities<br>(Liao Bokang Interview; LIAOWANG ZHOUKAN, No 44, 4 Nov 85) ..... | 38 |
| Management, Administrative Type Public Finance Discussed<br>(Zou Chuanjiao; JINGJI WENTI TANSUO, No 9, 1985) ..... | 43 |
| Briefs   |    |
| Jiangsu Rural Enterprises Prosper .....  | 47 |
| FINANCE AND BANKING  |    |
| Jiangsu Personal Insurance Subscriptions Flourishing<br>(Xu Xingming; XINHUA RIBAO, 15 Sep 85) .....               | 48 |
| Reform of China's Financial System Discussed<br>(Ma Mingjia; JINGJI RIBAO, 25 Sep 85) .....                        | 49 |
| Chen Muhua Discusses China's Financial Situation<br>(ZHONGGUO JINRONG, No 10, 4 Oct 85) .....                      | 51 |
| Banker Calls for Expansion of Credit Resources<br>(Zhang Xiao; ZHONGGUO JINRONG, No 10, 4 Oct 85) .....            | 54 |
| Savings Deposits in China Face Serious Challenges<br>(Zhu Delin; CAIJING YANJIU, No 5, 18 Oct 85) .....            | 60 |
| Problem of Merchandise With Variable Prices Discussed<br>(Deng Suiyu; CAIJING YANJIU, No 3, 18 Jun 85) .....       | 69 |
| Briefs   |    |
| Shanghai Issues Bank Bonds .....   | 73 |
| Heilongjiang Tax Revenue .....   | 73 |
| Guangdong's Savings Deposits Up .....  | 73 |
| INDUSTRY   |    |
| Jiangsu Province Top Industrial Producer<br>(XINHUA, 11 Jan 86) .....  | 74 |
| CONSTRUCTION   |    |
| Development of Building Paints in Jiangsu Discussed<br>(Shi Jinchang; XINHUA RIBAO, 16 Sep 85) .....               | 76 |



|   |     |
|---|-----|
| Accelerated Construction of Energy, Transport Projects<br>(Xu Haifan; JINGJI RIBAO, 21 Sep 85) .....            | 78  |
| Success of Baoshan Steel Complex Discussed<br>(Cheng Yuan; JINGJI RIBAO, 27 Nov 85) .....                       | 80  |
| Completion of Jiujiang Bridge in Jiangxi Urged<br>(TA KUNG PAO, 4 Dec 85) .....                                 | 84  |
| Hunan's Seventh 5-Year Plan Discussed<br>(Zou Yimou; HUNAN JINGJI XINXI BAO, 3 Aug 85) .....                    | 86  |
| Briefs<br>Sichuan Highway Repair Plan .....   | 88  |
| FOREIGN TRADE AND INVESTMENT  |     |
| China's Technology Import Policy Unchanged<br>(Wang Xidong, Shi Chunzhi; RENMIN RIBAO, 1 Oct 85) .....          | 89  |
| Japan's Reluctance To Export Technology Analyzed<br>(Tian Liwei; JINGJI DAOBAO, No 48, 2 Dec 85) .....          | 91  |
| SPECIAL ECONOMIC ZONES  |     |
| Shenzhen's Guidance Planning System Discussed<br>(Liu Zhigeng; GANG AO JINGJI, No 10, 25 Oct 85) .....          | 96  |
| Shenzhen's Methods of Economic Administration Described<br>(Gan Ziping; GANG AO JINGJI, No 10, 25 Oct 85) ..... | 102 |
| LABOR AND WAGES   |     |
| Promoting Labor Services Abroad Urged<br>(Liu Xiao, Tong Guoping; RENMIN RIBAO, 5 Jan 86) .....                 | 107 |
| Commentary Urges Promoting Labor Services Abroad<br>(RENMIN RIBAO, 5 Jan 86) .....                              | 111 |
| Xizang Trade Union Work Conference Opens<br>(Xizang Regional Service, 6 Jan 86) .....                           | 112 |
| Jiangxi To Hire Social Scientific Experts<br>(Jiangxi Provincial Service, 9 Jan 86) .....                       | 113 |
| Provincial Trade Union's Enlarged Session Ends<br>(Jilin Provincial Service, 10 Jan 86) .....                   | 114 |
| Labor Force 'Reservoir' Plays Major Role in Society<br>(He Yanping; LIAOWANG ZHOUKAN, No 44, 4 Nov 85) .....    | 116 |

## HONG KONG

|   |     |
|---|-----|
| Upholding of Hong Kong as World Financial Center<br>(Jiang Wengui; TA KUNG PAO, 15 Nov 85) .....        | 120 |
| Hong Kong Doubles Machinery Sales to PRC<br>(SOUTH CHINA MORNING POST, 13 Dec 85) .....                 | 124 |
| Gross Domestic Product Growth Reported Slow<br>(Chito Santiago; HONG KONG STANDARD, 21 Dec 85) .....    | 126 |
| Businessmen To Meet PRC Finance Officials<br>(Jack Spackman; SOUTH CHINA MORNING POST, 22 Dec 85) ....  | 128 |
| Domestic Exports Fall Seven Percent in First Ten Months of 1985<br>(HONG KONG STANDARD, 7 Jan 86) ..... | 132 |
| PRC's CITIC To Assume Majority Shares of Hong Kong Bank<br>(AFP, 8 Jan 86) .....                        | 134 |
| Briefs  |     |
| Stock Market Record High  | 135 |
| Trade Development Council Opens   | 135 |

NATIONAL POLICY AND ISSUES

SELF-OWNED STATUS SOUGHT FOR STATE-OWNED ENTERPRISES

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 10, 1985 pp 5-7

[Article by Zhang Bingguang [1728 3521 0342]: "State-Owned Enterprises Must Become Self-Owned"]

[Text] Whether state-owned enterprises should become self-owned is an important problem raised by both theory and practice.

First, it involves the major theoretical issue of the basis for the labor products of state-owned enterprises being commodities and the state-owned economy being a commodity economy. Some comrades think that the basic reason why the labor products exchanged by state-owned enterprises are commodities is that enterprises have autonomy. Actually this is not so. Except for the diversified economy component of socialist society, there is, indeed, no basis for the existence of a commodity economy in the state-owned system. Since state-owned enterprise ownership rights belong to the state, enterprise autonomy is not equivalent to ownership and the "various public owners" derived from enterprise autonomy are, indeed, not like the "various public owners" determined by collectively owned enterprise ownership and cannot be regarded as the basis for the labor products or state-owned enterprises becoming commodities nor, of course, as the basis for the state-owned economy becoming a commodity economy. Only after the labor products of state-owned enterprises are exchanged with the labor products of other economic management units is ownership transferred and the commodity form adopted. It is thus clear that the problem of whether state-owned enterprises should become self-owned is still one of whether their labor products can become commodities and also of whether the state-owned economy can become a commodity economy.

Second, the problem of whether state-owned enterprises should become self-owned involves the key problem of whether they can become genuine enterprises and qualified corporations. In actual economic activity, some foreign businessmen who come to China to discuss trade are unwilling to directly approach our state-owned enterprises, but want to see the departments responsible for state-owned enterprise work and even local party and government responsible people. They think that our state-owned enterprises, indeed, have no form of ownership and are not the principal decisionmaking bodies, and that the departments responsible for state-owned enterprise work and even local party and government responsible people actually control state-owned enterprise ownership and are the principal decisionmaking bodies. In other words, China's existing

state-owned enterprises are still not genuine enterprises and are only similar to a Japanese corporation's subordinate enterprise factories.

From this perspective, the problem of whether state-owned enterprises should become self-owned is again one of whether they can become genuine enterprises and establish their position as corporations. Some comrades think that an external reason why state-owned enterprises lack vitality is that some departments have not truly established the idea that an enterprise has a corporate status. But corporate status derives from such forms of ownership as a corporation's inherent and acting ownership. Since our state-owned enterprises do not have any form of self-ownership, they do not, per se, have corporate qualifications. It is precisely this internal reason that has caused the external phenomenon of denying enterprise corporate status.

Third, enterprise bankruptcy laws must be enacted to resolve the problem of whether state-owned enterprises should become self-owned. Every year, approximately one-fifth of China's state-owned enterprises incur losses. The accumulated losses of many of these enterprises exceed 50 percent of their net fixed-asset value and they are on the verge of bankruptcy. If they are not allowed to go bankrupt, they will impoverish the state. Thus, the demand for the formulation and enforcement of domestic enterprise bankruptcy laws has become more and more insistent. But self-owned enterprises are the economic foundation upon which the formulation of enterprise bankruptcy laws relies. Since state-owned enterprises are not self-owned, they have no property which they can lose, and since they are state-owned, bankruptcy means state bankruptcy. The state of course will not go bankrupt, since the total losses of all bankrupt state-owned enterprises is not enough to cause state bankruptcy. Thus, there can only be enterprise bankruptcy and absolutely not "state bankruptcy." But in order for enterprises to go bankrupt, they must have property which they can lose and become self-owned.

To sum up, the problem of whether state-owned enterprises should become self-owned depends upon whether the labor products of state-owned enterprises actually become commodities, whether the state ownership system becomes a commodity economy in fact as well as in name, whether state-owned enterprises become genuine enterprises and qualified corporations, and whether enterprise bankruptcy laws are enacted.

The most direct way to enable state-owned enterprises to become self-owned would be to abolish state ownership and change state-owned enterprises into non-state-owned, collectively-owned, group-owned or enterprise-owned enterprises. But would this be reasonable and feasible?

Based on the development needs of productive forces, our socialist economy should be a planned commodity economy based on public ownership. Relying on the enthusiasm and creativity of all the people throughout society as its masters, it is the most reasonable and dynamic form of overall economic planning and leadership. Overall planning and leadership rely on the state, and the state must rely on its state-owned industrial and commercial enterprise ownership, which controls and accounts for the biggest proportion of the national economy. Without this ownership, the state would have no way to organize and ensure its

overall planning and leadership of the national economy, and its ordered, directed and guided planning (through state-owned enterprise participation in market regulation) would all fail. The major task of overall state planning and leadership of the national economy is to ensure that the social economy develops in directions favorable to socialism. This must rely on state-controlled economic strength, i.e., principally on state-owned industrial enterprises, which account for approximately 80 percent of China's gross industrial output value, and state-owned commercial enterprises, which account for over 70 percent of our total volume of retail commodity sales. Only by relying on its state-owned industrial and commercial enterprise ownership can the state control such abundant economic strength. Without this ownership, it would be unable to ensure and uphold its socialist orientation.

State-owned enterprises were established by the state through confiscating bureaucrat capitalist enterprises, buying national capitalist enterprises and approving allocations and loans, and the state's rational and legal state-owned enterprise ownership is undoubtedly a result of this. Thus, except for a few enterprises, allowing the state to renounce its state-owned enterprise ownership would be both unreasonable and impracticable.

Therefore, should the state own the privately owned funds of state-owned enterprises, the fixed assets purchased with their privately owned funds and the part of their fixed-asset net value which exceeds the original value? The answer is in the affirmative. This is because the state itself is a state-owned enterprise, state-owned enterprises are merely the state's basic economic units and the economic relations between the state and state-owned enterprises are subordinate economic relations, i.e., relations between an entity and its units. As an entity, the state has the power to stipulate whether state-owned enterprises should have privately owned funds and the amount of their funds and fixed assets. This is a matter of the ownership of an entity and belongs to the problem of whether its ownership is used properly, i.e., whether it is exercised according to the needs of objective laws. Privately owned funds of state-owned enterprises, the fixed assets purchased with their privately owned funds and the part of their fixed-asset net value which exceeds the original value are all derived from direct and independent state investment and retained for enterprise use according to state stipulations. They are, in essence, a continuing state investment in enterprises and are, naturally, owned by the state.

How can state-owned enterprises become self-owned without abolishing state ownership? In an article [Footnote 1] (See "The Commodity Production Law of Value and Expanding Enterprise Jurisdiction" pp 359-360, published in June 1980 by the China Social Sciences Publishing House), I divided state-owned enterprise ownership into two levels: final ownership, which is controlled by the state, and acting ownership, which is turned over to the enterprise. According to the principle of authorizing economic management, the state requires state-owned enterprises, premised on their submitting to its unified leadership, to carry out their management activities independently and on their own initiative, i.e., it must entrust state-owned enterprise ownership to acting enterprise agents; but it must be able to lead them scientifically, control them rationally and effectively and retain its final ownership. Thus, the principle of authorizing economic management is the basis for dividing state-owned enterprise ownership

into two levels. Therefore, how can the dual-ownership division be realized in practice?

1. Through state-owned enterprise registration, all forms of fixed and circulating assets given to state-owned enterprises by the state should be regarded as registered state-owned enterprise funds. From now on, additional allocated funds (including privately owned funds of state-owned enterprises), along with registered funds, should all be state-owned enterprise funds. Except for special situations, the state should not transfer state-owned enterprise funds. Moreover, it must clearly stipulate through legal forms that state-owned enterprise fund ownership is entrusted to acting state-owned enterprise agents in a relatively permanent way. When customers from home and abroad want credit certification of state-owned enterprises, banks can issue fact certification and the enterprises can also show their registration credentials. According to production and management needs, state-owned enterprises should have the authority to handle all of the funds entrusted to them. They should rely on their acting ownership to become genuine independent basic economic units. In this way, a new system can be formed, wherein the state is an entity and state-owned enterprises are its units.

If state-owned enterprises are regarded as state ownership units, there will be an objective institutional basis for their labor products to become commodities and also a real economic foundation for them to become genuine enterprises and qualified corporations and for enterprise bankruptcy laws to be formulated.

2. After state-owned enterprises have acting ownership, they should become the principal management decisionmakers of state-owned enterprises. As the principal decisionmakers, they must be fully responsible for the consequences of their decisions (including investment risks) and integrate their decisionmaking, economic and administrative responsibilities. In this way, leadership quality of state-owned enterprise can be distinguished principally by the success of its enterprise management and the extent of its contribution to the state.

3. The part of state-owned enterprise income paid to the state through the substitution of taxes for profits is not free income acquired by the state through its political power, but is compensatory income acquired by the state through its enterprise ownership. Thus, it is not tax revenue in its original sense. This part of state revenue should be classified as production development funds and a considerable part of it should be used for supplemental, compensatory or return investment in state-owned enterprises and, particularly, for strengthening the self-transformation and self-development capacity of large and key enterprises. This is an important expression of the correct exercise of final state ownership according to the needs of objective laws.

The above three points are a rough idea of how to carry out the dual-ownership division.

State-owned enterprises not having ownership and management decisionmaking rights and the state only collecting taxes and profits from and not continuing to invest in them is a result of our half-natural, half-commodity economy. After they acquire acting ownership and management decisionmaking rights and

after compensatory economic intercourse is strictly carried out between them and the state, state-owned enterprises will move from the half-natural, half-commodity economy era into the planned commodity economy era. As long as they do not have ownership and decisionmaking rights and they and the state "take from each other indiscriminately," state-owned enterprises will, in fact, remain in a nonenterprise or semienterprise position; after they acquire acting ownership and decisionmaking rights and compensatory intercourse is strictly carried out between them and the state, state-owned enterprises will advance to a genuine enterprise status. Thus, the realization of the division of state-owned enterprise ownership into final and acting ownership and the formation of the new system, wherein the state is an entity and enterprises are its units, will enable state-owned enterprises to move into an improved era.

12267/12274

CSO: 4006/322

NATIONAL POLICY AND ISSUES

IMPACT OF TECHNOLOGICAL REVOLUTION ON SMALL CITIES, TOWNS

Taiyuan JISHU JINGJI YU GUANLI YANJIU [STUDIES ON THE ECONOMICS AND MANAGEMENT OF TECHNOLOGY] in Chinese No 4, 85 pp 32-34

[Article by Zhang Jingzong [1728 0403 1350] and Zhang Zhangeng [1728 0594 5087]: "How Small Cities and Towns Are Coping with the New Technological Revolution"]

[Excerpt] III. Special Features and Background of Upsurge of Small Cities and Towns

While the economically developed regions and countries are in the midst of an "antiurbanization movement," an "upsurge of enthusiasm for the establishment of small cities and towns" has emerged in the undeveloped Chinese mainland in the early 1980's. According to statistics supplied by the Ministry of Civil Affairs, 5,698 cities and towns had been established throughout the nation by June 1984, showing an increase of 65 percent compared to 1979, and some 10,000 cities and towns were expected to be established by the end of 1984. The development of densely concentrated small cities and towns is especially rapid along the coastal provinces. There are on the average 1.5 small cities and towns for every 100 sq km in Jiangsu Province, 2.3 for every 100 sq km in Suzhou Prefecture and 3 for every 100 sq km in Wuxi County.

Although the upsurge of small cities and towns occurred only a few short years ago, the economic and social role they play in our nation and their contribution to the development of our national economy should not be underestimated.

First, small cities and towns are important bases for speeding up the modernization of agriculture and for turning around the backward state of the rural areas. Enjoying as they do the geographical advantage of proximity to the rural areas, the small cities and town are in a good position to satisfy the needs for agricultural production, to supply the means of production when and where they are needed and to make advanced technical equipment available for agricultural production. The development of industrial and commercial enterprises in the small cities and towns not only helps to strengthen the collective economy but also to supply funds in support of agriculture, to make use of surplus agricultural labor and to turn potential productive power into real productive power:



Second, the establishment of small cities and towns has improved the distribution of industries in our nation and speeded up the pace of industrial modernization. According to statistics, the total production value of the various industries in the small cities and towns has exceeded 20 percent of the total value of industrial production in the entire nation, a percentage that is expected to continue to rise.

Third, small cities and towns constitute a link between industry and agriculture and a bridge for the exchange of supplies between the cities and the rural areas. Forming a link between cities on one side and vast rural areas on the other, the small cities and towns enjoy the special features of both the cities and the rural areas and are capable of playing a role which cannot be played by the cities or rural areas alone. While the cities must rely on the small cities and towns for the purchasing, assembling and transshipment of large amounts of subsidiary agricultural products and the industrial raw materials that they need, they must also depend on the small cities and towns to use various channels of circulation to make various supplies from the cities available to the peasants.

Fourth, small cities and towns are the scientific, technological, cultural and public health centers in the rural areas and important bastions for the establishment of spiritual civilization. All of our small cities and towns have a certain number of cultural, educational, scientific and technical, public health and recreational establishments and personnel. Through their efforts, the small cities and towns have become, or are in the process of becoming, centers for scientific, technical and personnel training, the development of the intellect, the dissemination of advanced technology, the raising of the cultural level of vast numbers of peasants and bastions of increasing importance for the propagation of socialist spiritual civilization among the peasants and the masses.

That the emergence of small cities and towns in China differs from that in the West is due to the special conditions in China. The rise of small cities and towns in the West occurred under conditions marked by the intensive concentration of population in the cities. According to statistics for 1980, the ratio of the population in the cities out of the total population was 88.3 percent in Britain, 86.4 percent in the FRG, 82.7 percent in the United States, 87.3 percent in France and 63.3 in Japan. It was only after the intensive concentration of the population in the cities that the tide began to turn the other way and small cities and towns began to emerge. Is it necessary for our small cities and towns to go through the "citification" process undergone by the economically developed countries and to take the zigzag course of moving the population in large cities back to the small cities after it had congregated in the large cities? There is neither the necessity nor the possibility of that happening. At the moment, surplus labor constitutes 30 to 40 percent of the total labor force in our rural areas. The percentage is over 60 percent in certain areas. It is expected to reach 300 to 400 million by the end of the century. If the surplus labor force were to be absorbed by large cities, it would be necessary to establish 300 to 400 cities each with a population of 1 million, something which is entirely out of the question considering the enormous investment. Under the circumstances, there is only one avenue open to us and that is to steer clear of

large cities and to engage directly in the establishment of small cities and towns. That is the citification process we have come up with at the initial period of the new technological revolution and on the basis of our own experience that is in line with the conditions in our nation and the general trend of urban development in the world.

The development of small cities and towns in China differs from that in the economically developed nations in many respects: 1) The motive power behind the development of small cities and towns comes not from the trend of decentralization of industrial enterprises in the large cities but from the development of commodity production in the rural areas. 2) For a considerable period of time, the small cities and towns in our nation will essentially be involved with providing services to the rural areas and most of the industries in the villages and towns will be engaged in the processing of subsidiary agricultural products, construction and mining. 3) Most of the new residents in the small cities and towns will come from the rural areas. However, the policy of "leaving the farm but not the village and going into the factory without going into the city" is to be adopted. Most of the residents will be of a type known as "amphibious" peasants or "migratory bird" peasants who engage in planting during the busy growing season and in the industries and commerce during the slack growing season and who live in the rural areas while engaged in farming and in the small cities and towns while engaged in the industries and commerce. 4) The small cities and towns are being developed according to a plan.

In developing our small cities and towns, we must proceed from actual circumstances, take note of the special features mentioned above and avoid adopting in a haphazard manner the models set by the economically developed countries. We must not, at the same time, regard the emergence of small cities and towns in the early 1980's as a phenomenon reflecting the isolated position adopted by our nation. Although the establishment of small cities and towns in our nation is the direct result of the high degree of development of commodity production in our rural areas, it has taken place against the larger background of the new technological revolution and the general tendency for the large cities in the world to develop small cities and towns. We must go about the establishment of small cities and towns with an eye on this general trend. We must make the vigorous development of small cities and towns an immutable basic policy of the state in the development of our cities and not hesitate to exercise control over them. Furthermore, we must establish a link between our small cities and towns and the development of the rural economy and make the small cities and towns important bases for the modernization of our agriculture. We must also establish a link between the establishment of small cities and towns and the trend of development of our cities and make the small cities and towns the testing grounds for the establishment of a new type of city in the future.

#### IV. Certain Problems Relating to the Establishment of Small Cities and Towns

First, the establishment of small cities and towns in our nation should be regarded as a major policy decision in our new technological revolution.

In dealing with the technological revolution, many nations in the world have included the establishment of small cities and towns in their strategy for economic and social development. In addition to such economically developed countries as the United States, the FRG and Japan which are vigorously engaged in the development of small cities and towns, the USSR, [North] Korea and the Eastern European countries have also evinced a great deal of interest. Due to the inadequate implementation of our policy of exercising control over the size of the large cities and of developing small cities and towns vigorously, the large cities have continued to expand and sufficient importance has not been attached to the establishment of small cities and towns. We must take a broad and long-term view, observe carefully the general trend of the development of cities throughout the world, put a stop to undesirable trends and make the vigorous development of small cities and towns a basic policy of the state for the social and economic development of the nation in order to meet the needs of the new technological revolution and to promote the development of the national economy.

Second, we must give adequate consideration to the effect which the new technological revolution has on small cities and towns and make long-term plans for their establishment.

In making plans for the establishment of small cities and towns, we must not only concern ourselves with immediate gains but also future benefits. Unlike the traditional small cities and towns, the small cities and towns in this day and age constitute vital links in the network of large and modernized cities as well as economic and cultural centers of modernized agriculture. For that reason, importance must be attached by the small cities and towns to the establishment of an information network. They must strengthen the market information network, the scientific and technological information network and the postal and telecommunications network so that the small cities and towns may gradually be served by modern media of information.

The small cities and towns must put an end to the longstanding antithesis existing between the cities and the natural world. We must study the various forms of the "biological chain" and the "material cycle" and establish small cities and towns on a sound and ecologically balanced foundation. For instance, plans should be made to construct underground or semiunderground buildings that are warm in winter and cool in summer, to make use of solar, biological, wind and water power as sources of energy, energetically develop high-volume family and courtyard urban agriculture, and so on, to extensively develop small cities and towns that are modern and ecologically sound.

Small cities and towns are cultural as well as political and economic centers. That being the case, we must, in planning the establishment of small cities and towns, attach importance to the favorable development of the various socialist moral principles that contribute to friendly relations among the people. For instance, in the construction of housing, we must pay due attention to the trend for small family residences, the convenience of contact among neighbors and our traditional virtue of respecting our elders and taking care of the young. In addition, the small cities and towns should have adequate cultural and recreational facilities so that the residents may avail

themselves of their spiritual and cultural benefits and that the small cities and towns may gradually be developed to typify the socialist spiritual civilization.

Third, we must, in meeting the demands of the technological revolution, strengthen the basic installations and services prior to and following production.

With the general increase in commodity production in the rural areas and the extensive development of the commodity economy following the advent of the new technological revolution, the reform of the rural system and the readjustment of the industrial structure, it has become necessary for us to speed up services prior to and following production while strengthening basic constructions. At present, the poor basic installations, the inadequate public health facilities and the unsatisfactory postal and telecommunications services in most of our small cities and towns are basically unequal to the demands made by the new technological revolution and the development of the commodity economy in the rural areas. A complete social service system is an important element for the development of the commodity economy. The major difference between the commodity economy and the natural economy is that the development of the former requires a series of extrinsic conditions, such as services in the areas of supply, processing, storage, transportation, technology, information, credit loans, etc. Such services, however, are inadequate in our small cities and towns and are incapable of meeting the needs of the developing situation. For this reason, we must take the entire situation into consideration, strengthen the basic installations and supply a complete range of social services.

Fourth, we must vigorously develop the enterprises in the rural areas. The enterprises in the villages and towns are capable of playing a pivotal role in bringing prosperity to the market towns and in promoting the economic development of the rural areas. By developing the enterprises in the villages and towns, it is possible to centralize various types of human, financial and material resources in the market towns. Thus the development of village and township enterprises is in itself a major means for the establishment of market towns. In this sense, the village and township enterprises may be said to furnish a major foundation for the establishment of small cities and towns. Insofar as most of our rural areas are concerned, the village and township enterprises should concern themselves mainly with the processing of subsidiary agricultural products, mining and production of construction materials. Such enterprises would be of benefit to the small cities and towns which have already been established or which are in the process of being established. They would serve to absorb a larger amount of surplus labor in the rural areas, make it possible for the small cities and towns to render better service to agriculture and promote the development of agricultural productive power. At the same time, such enterprises would serve to alter the unreasonable and excessive concentration of industries in the large cities and to bring about gradually a reasonable deployment of productive power in society.

Fifth, we must welcome the new technological revolution and strengthen the establishment of scientific, educational, cultural and public health enterprises in the small cities and towns so that they may gradually evolve from purely commercial and trading entities into a new type of economically, politically and culturally integrated cities and towns and play an even larger role in promoting the development of productive power in society during the new technological revolution.

The rapid development of small cities and towns in the rural areas is the inevitable outcome of the quantum leap in productive power in the rural areas. The small cities and town in the rural areas are brimming with vitality in the midst of the new technological revolution. We must create the necessary conditions, promote vigorously the establishment of small cities and towns and turn them gradually into a new type of tightly concentrated, modernized and socialist cities so that we may further accelerate the development of productive power in our nation.

9621/12948

CSO: 4006/372

ECONOMIC DEVELOPMENT ZONES

ZHANJIANG, BEIHAI, HAINAN AS SPECIAL ZONE DISCUSSED

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese  
No 10, 25 Oct 85 pp 35-38

[Article by Zhong Yechang [6988 2814 2490] of the Economic Administrative  
Department of Hainan University: "More About the Development of the 'Silver  
Delta'"]

[Text] While China is opening to the outside world, some people have proposed that because of the similarity of Zhanjiang, Beihai and Hainan Island in climate, natural resources and some other respects, a study be conducted on the question of combining them to form another open "delta zone" called the "silver delta" as a counterpart to the "golden delta" of Shenzhen, Guangzhou and Zhuhai (See "A Tentative Discussion on the Development of a 'Silver Delta' by Han Yaogen [7281 5069 2704] in our No 2, 1985). The building of an "economic zone" referred to in this article, in my opinion, deserves further discussion for the following reasons.

I. All-Round Economic Cooperation as a Means of Enabling a Zone To Play a More Active Role

An economic zone is the outcome of certain historical conditions and an extremely important aspect of the reform in China's economic structure. Mainly with the help of the central cities and industrial bases, it will resolve the contradictions between higher and lower levels and between different departments or regions, restore the economic ties that have been arbitrarily severed between different regions and departments, arouse their enthusiasm, and thus form an economic network across regional and trade barriers to facilitate production and circulation according to the requirements of large-scale socialized production. All the three coastal economic zones which China has opened to the outside world have a fairly strong economic foundation and economic power, higher scientific, technological and cultural standards, a more developed commodity economy, and fairly long-standing and extensive economic contacts with foreign countries. Furthermore, with their superior geographical and climatic environments, they are serving as the means of China's economic relations with foreign countries and the bases of imports and exports and occupying key positions in introducing investment from abroad and establishing lateral ties at home. Economic zones are, therefore, necessary because of their great strategic significance. In

the case of the "silver delta," its economic foundation and economic power alone will seriously handicap its performance in these respects. Since the question of barriers between higher and lower levels and between different departments or regions does not basically arise, how significant would the building of an economic zone be?

Furthermore, from the point of view of the open door policy, Zhangjiang, Beihai and the other coastal cities are different from Hainan Island. As Premier Zhao said, the 14 coastal cities and the four SEZ's, as a solid block, have become the frontier region of an open door China. This arrangement will not only accelerate the economic development of these regions, but also help bring in advanced technologies, popularize the experiences of scientific management, train and supply skilled personnel, support the hinterland and spur on its development. The opening of three coastal economic zones not long ago, also aimed at accelerating economic development along the coast, is also a strategic plan for the economic development of the hinterland. The opening of Hainan Island to the outside world is, however, not intended for such a purpose.

It is true that Hainan Island, Zhanjiang and Beihai will form the only tropical and subtropical open region with abundant natural resources. However, the abundance of natural resources in the "silver delta" actually belong to Hainan Island in quantity as well as in variety. Because of its abundant natural resources and extremely backward productive forces, the primary purpose of opening Hainan Island to the outside world is the overall development of the island so that it will be able to supply more tropical and subtropical agricultural products to support the four modernizations drive, but not to transfer funds, material equipment and skilled personnel to other places. Such being the case, will the "concrete comprehensive arrangement and coordination" in building the economic zone be able to inspire the participants in improving their performances?

At present, in view of the island's superior resources, an overall plan for the development and construction of Hainan Island, with priority to large-scale agricultural development, has been initially drafted. According to this plan, the island will become the largest producing and processing base of tropical and subtropical scenery; and will have five modern industrial bases mainly for petrochemicals, metallurgy and building materials, light and electronics industries and food. At the same time, in view of Zhanjiang's fine harbor facilities, the goal has also been set for its development whereby industry will occupy the leading position and priority will be given to the exploitation and utilization of petroleum and its role as an entrepot. There will also be bases for energy exploitation, transportation, international trade, ocean fishing and aquaculture, so that Zhanjiang will become an all-purpose harbor city with multiple functions. Furthermore, an office has been set up for overall planning in Beihai and it has been decided that economic zones of 16 sq km and 2.4 sq km will be set up in the vicinity of Beihai's Xingang and in Fangcheng Harbor, respectively.

These plans very objectively reflect the realities and highlight the priorities in each place. In building an economic zone, as emphasized in

Han's article, coordination must be strengthened, such as in the division of work among the harbors, the allocation of resources and so forth, in a spirit of mutual assistance and mutual concession in the joint development so that comprehensive coordination can be carried out. There is nothing wrong with such a theory, although it may not be easy to translate it into practice. Regional planning (which is of course necessary) calls for the expenditure of not only labor, money and materials, but also time. (Will it help Hainan Island catch up with certain economically developed islands in Asia?) Furthermore, there is no guarantee that the fear of being at some disadvantage will not appear as it did in some economic zones. We must realize that the proposed zone, which lies across the boundary between a province and an autonomous region, has no "center."

## II. Difficulty of Coordination Without a Central Region

It is quite obvious that only the leading position of a central city could promote the economic development within a zone. In China, it is always the central city which occupies the leading position in an economic zone. For example, Shanghai and Guangzhou are the central cities of the Chang Jiang delta and the Zhu Jiang delta, respectively. Similarly, Beijing and Tianjin will become the central cities of the Shoudu-Bohaiwan economic rim.

Among the three participants in the proposed zone, both Zhanjiang and Beihai are cities under a province and a prefecture (the former being at a prefectural level), whereas Hainan Island is the only administrative district in the country. As the state's local administrative organ, it is higher than a prefecture and lower than a province. Following are the relevant figures for comparison:

|               | Nonagricultural<br>population<br>(1979, 10,000<br>persons) | Area<br>(sq km) | GVIO<br>(100<br>million<br>yuan) | GVIAO (100<br>million<br>yuan) | Harbor traffic-<br>handling<br>capacity (1983,<br>10,000 tons) |
|---------------|--|-----------------|----------------------------------|--------------------------------|--|
| Zhanjiang     | 25.42  | 1,460           | 10.2*                            | 12.67**                        | 1,200  |
| Beihai        | 7.05   | 275             | 1.57**                           | 2.00*                          | 73   |
| Hainan Island | --   | 33,920          | 8.6*                             | 32.78*                         | 628.18   |
| of which:     |  |                 |                                  |                                |  |
| Haikou        | 16.4   | 222             | 3.53**                           | 2.54*                          | 109.11   |

(\* and \*\* show figures for 1983 and 1984 respectively)

According to these figures, Beihai cannot compare favorably with even Haikou, while Zhanjiang, despite its superiority in industry and harbor facilities, cannot play the role of a "center," (not to mention the role of a financial, trade, communications and transportation center) Hainan Island is larger and of a higher level in administration and earlier in opening to the outside world than either of these two cities. However, it belongs to a completely "agricultural society" and is different from the two cities with their "urban economy."



A zone that lies across the boundary between a province and an autonomous region and is "unbalanced" and without a "center" cannot play any "leading" role in a convincing way. All-round cooperation in such a zone can hardly be fruitful. If tourism is to be developed in the "silver delta" as mentioned in Han's article, will it be impossible to follow the example of Shenzhen, Guangzhou and Zhuhai and to possess the value of being unique? We may say that high rises (including those with ("large top roofs")) are an important characteristic of modern cities. Let us pause and think: if Taiwan Island, which is only slightly larger than Hainan Island, has been developed into modern super-city with a population of more than 2 million, it would be unthinkable for Hainan Island to be without a decent city? Furthermore, the unique characteristics of Hainan Island as a "city" of hundreds of km cannot be found everywhere. In China, as we may say, we may find a second Guangzhou, Shenzhen or Guilin, but not a second Hainan Island which is called the "Hawaii of the Orient."

Thus, will the building of an economic zone with funds used under a comprehensive arrangement encourage each of the parties to do its best? This would be doubtful. It is at least true of Hainan Island for the following reason.

### III. Hainan Island Always Studies as an Independent Geographical and Economic Entity

As some people have said, no matter how many economic zones will there be in Guangdong, Hainan Island should be an integral economic zone. This view is quite logical, because the Qiongzhou Strait (a geographic line) keeps it isolated in the sea. It is a relatively independent and naturally complete entity and an age-old administrative district; but the key factor in its becoming a special and independent economic zone is its unique abundance of natural resources.

On this tropical island whose area accounts for 0.35 percent of the national territory, there are more than 4,200 varieties of plants, about one-seventh of the national total; nearly 1,000 varieties of valuable wild medicinal herbs, about one-fifth of the national total; and more than 800 varieties of trees of the tropical rain forest, one-quarter of the national total. Among the tropical cash crops, the output of natural rubber and coconuts account for more than 70 percent and 97 percent of the national total, respectively. Furthermore, among the precious wild lives, there are 77 kinds of animal, about one-fifth of the national total; and more than 340 kinds of birds, one-quarter of the national total. In its spacious sea area, there are nearly 1,000 varieties of fish on record, more than the sum total in the Huang Hai, the Dong Hai and the Bo Hai. More than 50 types of mineral resources have been discovered. Among these resources (in addition to the highly promising reserves of petroleum and natural gas), the reserve of graphite iron alone accounts for 71 percent of the national reserve of rich iron mines; the titanium ores account for 70 percent of all verified reserves in the country; and the reserves of cobalt (the metal content) and zircon quartz also account for 60 percent of the national total. The reserves of phosphate and oil shale rank first and second in Guangdong, respectively, and thousands of tons of quartzite containing more than 98 percent of silicon dioxide can be found in Yangpugang alone.

For the purpose of comparison, we should also mention that Beihai has aquatic products, hydropower, petroleum and small amounts of other minerals as its main resources, but is far behind Hainan Island in these resources. Zhanjian has an abundant output of sugarcane, peanuts, pineapples and citrus, but it must not be forgotten that Shenzhen, Zhuhai, Guangzhou, and the two "golden delta" in southern Fujian, which are also opened to the outside world, can give the same performance. Only Hainan Island is "unique."

It is precisely for this reason that for more than 30 years, Hainan Island has been studied and treated as an independent geographic and economic entity. The scope of research in Hainan Island and the amount of time spent on such research, particularly in large-scale agricultural development and in ecological balance, are probably unparalleled in the country. While China is being further opened to the outside world, the research in Hainan Island's economy has again become a "hot topic" among people in theoretical circles. The academic papers on this island are far more than on any other region of the same level. In all these studies, Hainan Island is treated as an integral economic zone (although its relationship with other regions is by no means neglected).

From this, we can see that the establishment of a "silver delta" economic zone is of no great significance. At least, it would be very difficult to impose an "urban economy" on a traditional "agricultural society" in a zone lying across the boundary line between a province and an autonomous region and having no center. However, there is one more aspect to be considered.

#### IV. The Possibility of Strengthening Relations Without a "Complete Entity"

An economic coordination association comprising five localities (including Guilin and Chongqing) in four provinces (autonomous regions) of the southwest (Yunnan, Guizhou, Sichuan and Guangxi) has been set up in the great southwest. Through regional economic coordination, the key enterprises producing important products were given the leading role in the joint cooperation which helps promote the economic development of the participants. Even without the fanfares of any economic zone or any overall planning, it is still possible for the participants to cooperate fruitfully. This experience is very enlightening.

As for the question of allocating acantha pears and coconut juice, mentioned in Han's article, the form of "introducing investment from abroad and establishing lateral ties at home" is entirely applicable. As for whether an all-out effort should be made to develop oil refining in view of the so called superiority of "southern oil" in the "silver delta," however, the matter is far from so simple, because the comprehensive balance of the national economy and the subordination of local to state interests must be considered. Should the argument be advanced that Hainan Island is now preparing for a vigorous development of its petrochemical industry, such development is not entirely due to its superiority in petroleum and natural gas resources, but also because the state agrees that natural gas in hundreds of billions of cubic meters can be locally processed and used.

Zhanjiang and Beihai have always had close relations with Hainan Island. Zhanjiang in particular has for a long time provided the only road for Hainan Island to contact the mainland, and the construction materials for expediting the development of the island have mostly been transported through Zhanjiang. As long as there is full state coordination and the "introduction of investment from abroad and establishment of lateral ties at home" as well as active economic and technical cooperation among the regions (or enterprises), the economic relations among the two cities and one island can still be strengthened. Extensive connections are an important sign of a modern economy. I cannot possibly imagine that without an "economic zone," the two cities and one island will be entirely unrelated in their development. As long as there are mutual and reciprocal interests, new prospects for economic cooperation will soon be forthcoming.

It should be mentioned that Guangxi and the southwestern provinces should take full advantage of Beihai's opening to the outside world by using it as a common "window." Beihai is a fine natural harbor, and after expansion, its annual traffic-handling capacity will be increased 16 million tons. Fangcheng harbor which is 46 nautical miles away is also a large harbor in southern China, having 7 berths for 10,000-ton vessels and an annual traffic handling capacity of 3.63 million tons. When the Nanning-Fangcheng and Kunming-Fangcheng railways have been completed, another short railway starting from Qinzhou will further enhance its importance. For this reason, the cooperation between Beihai and the great southwest would be more logical and fruitful than the creation of a "silver delta."

At the same time, while carefully attending to the construction of the Zhu Jiang delta and Hainan Island, Guangdong should pay great attention to Zhanjiang's economic construction. It should work out an overall plan, study the strategy of development, carefully streamline the economic relations within and outside the province and form a multilevel economic zone and an economic network in many different forms in order to promote its own comprehensive economic development.

#### References

1. SHIJIE JINGJI DAobao, combined edition of second half of 1983.
2. Background materials in the long-range plan for science and technology in Hainan Administrative Region.
3. HAINAN RIBAO 2 February 1985 (Special Zhanjiang edition) and 9 March (Special Beihai edition).
4. Statistical data concerning Hainan Administrative Region.
5. CHENGSHI HE JINGJI QU [CITIES AND ECONOMIC ZONES], Fujian People's Publishing House, 1984.

9411/9435

CSO: 4006/434

ECONOMIC PLANNING

GOVERNMENT TO ENCOURAGE PRODUCTION FOR EXPORT

OW111716 Beijing XINHUA in English 1651 GMT 11 Jan 86

[Text] Beijing, 11 Jan (XINHUA)--A senior economic official today told China's state-run enterprises they are encouraged to produce more exports and they should try to eliminate losses this year.

Lu Dong, minister in charge of the State Economic Commission, said today that the government will guarantee supplies of raw materials, energy and transportation for enterprises involved in export production.

Speaking at a national conference on economic work which began here today, Lu said the government will reduce taxes on enterprises' incomes and increase depreciation funds this year to give them more money for needed retooling.

Over half of the enterprises are expected to complete their retooling work by 1990, he said.

In general, according to Lu, China will emphasize development of its nearly 6,000 large and middle-sized industrial enterprises in 1986.

Although the large and middle-sized operations number two percent of the country's total, their fixed assets account for 66 percent and their industrial output accounts for 47 percent, Lu said.

Lu said this year priority will continue to go to development of energy, transportation, postal services, telecommunications and industries that produce raw materials.

He said the government will continue to control the level of capital investment and consumer spending, measures necessary to avoid overheated growth.

At the same time, Lu asked all enterprises in the country to raise their management efficiency and reduce energy consumption.

To meet the demands of the market, he said, enterprises should produce more high-grade and high-quality durable goods.

He said that while continuing to pay sufficient attention to grain production, rural areas should further diversify their economies to provide more meat, eggs, poultry, vegetables and other foods for the cities.

## ECONOMIC MANAGEMENT

### SHANGHAI OVERFULFILLS TAX QUOTA FOR 1985

Beijing RENMIN RIBAO in Chinese 17 Dec 85 p 1

[Article by Wang Hongyang [3076 3163 3152]: [Shanghai Overfulfills Tax Plan for 1985; Over 7,000 Tax Personnel Cited for Meritorious Service"]

[Text] Shanghai, 16 December--By the end of November this year, Shanghai, the largest industrial and commercial city in the whole country, has overfulfilled the tax plan for the whole year by 5.4 percent. This achievement is inseparable from the hard work of the more than 7,000 tax personnel.

This reporter heard a story at the No 16 Wharf, Shanghai's biggest floating gateway, about how a tax worker cracked the "silk cloth mystery" by strategy. In February this year, 50,000 meters of silk cloth valued at more than 200,000 yuan were shipped from Hubei on consignment. As the big bundle of silk cloth was gathering a heap of dust in the wharf's baggage room, nobody had cared to ask about it after several months went by. Gu Cunyuan [7357 1317 0337], chief of the tax inspection station at the wharf who keenly observed the "secret" in the cargo, had asked comrades at the station to keep an eye on this bundle of mysterious silk cloth day and night. Soon after, some one showed up to claim the cargo. After investigation, Gu Cunyuan finally found out that although this batch of silk cloth had remained unclaimed in the baggage room, it had changed owners five times, with the price increasing at each transaction. In their transactions, the cargo owners purposely delayed taking delivery of the silk cloth with the intention of evading state tax. After the whole truth came out, the inspection station levied more than 12,000 yuan in tax according to the law.

In Shanghai, more than 1.6 million travelers come and go each day carrying many industrial products and much farm produce and sideline products in and out. The busy train stations, wharves and airport have become the outposts where the tax personnel and the tax evaders have a test of strength. Be it in severe cold or beastly hot weather, day and night the sharp eyes of the tax personnel are looking for clues which ordinary people cannot detect. From several strings of rabbit hair that stuck to a piece of baggage at the train station, they had detected a rabbit wool peddler; from the bottom of baskets of tax-free fresh eggs carried down from a passenger ship, they found several thousand jin of fresh fish; from numerous air parcel manifests, they

discovered more than 43,000 kg of clothing trying to evade tax. They have been guarding the "land, sea and air" gateway to Shanghai for nearly 2 years and recovered more than 3 million yuan in tax for the state.

In thousands of factories, shops and fairs in Shanghai, the tax personnel are carrying out their noble duty with all their heart and all their might. The 57-year-old Liu Zhongyuan [0491 0022 0337] is a special agent of the Shanghai Municipal Tax Bureau assigned to the Shanghai Huatong Switch Factory. This factory has planned to deliver 36 million yuan in tax for profit to the state each year. Since he has assigned to the factory in 1980, Liu Zhongyuan, working from dawn to dusk and braving winds and rains, has found out all about the "family property accumulated over the years" in the factory's 21 warehouses. The amount of tax for profit delivered to the state by the Huatong factory exceeded the set plan by more than 2 million yuan year after year, it also repaid from 700,000 to 800,000 yuan in back taxes for profit. This reporter ran into a group of vigorous young men at the No 3 tax office in Luwan District, Shanghai Municipality. They are a little over 20 years in age, engaged in tax work for 2 or 3 years and they love their work. Luwan District has a woman who sells pork as an individual household but she is very cunning in evading tax. By watching her acts in the market during the day and patrolling the main streets in the neighborhood at night, young special tax agent Zhang Chuanlong [1728 0278 7893] finally discovered on-the-spot the "secret" that she had been doing business outside the market at night for a long time to evade paying state tax. In April, young tax agents Jin Wei [6855 1550] and Qin Yide [4440 5030 1795] found out about an individual household illegally selling clothing at home. This individual household asked a friend to plead for leniency, to which Qin Yide replied solemnly: "This is a state matter that must be handled according to the law of the state." Resolutely he detained the merchandise according to the law and imposed a fine of more than 2,000 yuan for tax payment.

12662/6662

CSO: 4006/483

ECONOMIC MANAGEMENT

PRC TO SET UP NATIONAL FEDERATION OF INDIVIDUAL BUSINESSES

HK100617 Beijing CHINA DAILY in English 10 Jan 86 p 4

[Article by Yang Yi]

[Text] To strengthen the administration of individual businesses, a national federation is to be established this year based on provincial and county associations of such firms. Wang Zhongming, director of the Individual Economy Department of the State Administration for Industry and Commerce, told CHINA DAILY in a recent interview.

The federation is designed to pass on to the government the needs, complaints and difficulties of persons involved in these individual firms and to convey state requirements to the individuals, according to Wang. It also will provide information about sales and production, helping government departments to meet the needs of individual businesses for means of production and raw materials. In addition to safeguarding the rights of individual businesses, the federation will help educate private households about the need to abide by the law and to observe discipline.

Associations of individual businesses have already been established in almost all counties and 23 provinces, Wang said. These, plus the prospective national federation, are under the supervision of the state industry and commerce administrations at their corresponding levels. It is expected such organizations can help where the state administration cannot reach.

China's individual economy has prospered since 1978, when the party's work focus was shifted to economic construction. By November 1985, there were 11,520,000 households licensed to operate as individual businesses in such fields as crafts, transport, small commerce, service trades and catering, the director noted.

In 1978, there were only 140,000 such households in urban areas. (Statistics for rural areas were not compiled.)

By last November, total capital investment in the individual economy was officially listed as 17 billion yuan (about \$5.1 billion). But this is believed to be lower than the actual figure because the owners of small businesses tend to declare only part of their assets or business volume in the hope of evading taxes, Wang said.

The rapid growth of the individual economy has caused some problems, according to Wang.

Besides tax evasion, there is some illicit speculation and other illegal activities. Some unlicensed vendors, mostly off-duty government employees, factory workers or youths waiting job assignments, take advantage of holes in the supervision of private traders. Sometimes they foist poor goods onto buyers. Sometimes they force farmers to sell them vegetables at less than cost.

The state departments responsible for overseeing the private economy have too few employees to handle the many small businesses so widely scattered, Wang said.

There are only 6,000 persons assigned to this task throughout the country. In Guangdong Province, for example, each has an average 470 households under his supervision, far above [as published] the state requirement of one each for 50 households. In the northeastern provinces, things are better with each overseeing 100 households.

It is planned to add another 100,000 employees this year, mostly for administration of free markets. Still many repair shops, small food stalls, independent cobblers and harbers will remain beyond the reach of effective state supervision, Wang said.

Much management personnel is unqualified, he said. Some supervisors have only superficial understanding of government policies and others simply adopt a what-I-say-is-law attitude.

It is against this backdrop, that the national federation of individual businesses will be established this year.

For all the problems, Wang said, the individual economy has proved an important supplement to the state and collective-owned economy.

There are six million service sites, including 1.3 million eating houses or food stalls, scattered across the country. They reach areas the state commerce does not cover to cater to people's daily needs.

In promoting the flow of goods, private households also play an important role. The 170,000 trucks and 1.27 million transport tractors owned by individuals handle 40 percent of the country's highway freight for a total volume of 15 billion ton-kilometers.

These private transporters often improve efficiency by adopting simple methods of collecting goods. For example, some prearrange with the farmers or mountain villagers to pile their produce at assigned spots along the highway. They also carry consumer goods to out-of-the-way areas that were once bypassed.



The individual economy also absorbs much of the excess rural workforce and helps solve employment problems in cities, Wang said.

As a result of increased agricultural productivity, fewer farm workers are needed. By the end of 1984, 13 million former farmers had left the land and set up small businesses or turned to other trades such as construction. It is estimated that in the Seventh Five-Year Plan period (1986-90), about 100 million more will leave farming.

In this way, Wang said, the individual economy is helping to change the pattern of agriculture in China. It is hoped that eventually the amount of land per farmer will increase 100 fold from the present 0.02 hectares to two hectares.

By the third quarter last year, the individual economy absorbed 920,000 young people in cities. Wang added private small businesses increase the state revenue. By the end of 1984, the state had collected 4.2 billion yuan in taxes from private businesses.

The individual economy also stimulates state-owned commerce according to Wang. Generally, individual commerce offers good service, a fact that pressures state-run commerce to change its notorious bureaucrat-merchant style.

/9738

CSO: 4020/172

ECONOMIC MANAGEMENT

INVESTIGATION AIMS TO IMPROVE ARBITRATION WORK

OW111700 Beijing XINHUA in English 1515 GMT 11 Jan 86

[Text] Beijing, 11 Jan (XINHUA)--A nationwide investigation of economic contracts will be made this year as part of the effort to improve arbitration work in the field.

Arbitration of contract disputes is becoming increasingly important in China as economic activities escalate, according to Zhou Yaxian, vice-president of the commission for arbitrary disputes arising from the implementation of economic contracts.

Zhou said his commission and its branches handled 63,000 cases involving 10.9 billion yuan (U.S. \$3.4 billion) from their establishment in September 1983 through November 1985.

As reforms lessen state regulation and increase market pressures and China becomes more open to business transactions with the outside world, there are more enterprises to sign contracts--and to have disputes, he said.

For example, over 100 million economic contracts were signed last year in China's east coast province of Jiangsu alone, government figures show.

According to Zhou, China has 180 million farming households, 3.6 million industrial and commercial enterprises, 11 million individual enterprises and businesses, and 2,200 businesses jointly owned by Chinese and foreigners.

/9738

CSO: 4020/172

ECONOMIC MANAGEMENT

INDUSTRIES RAISE EFFICIENCY IN PAST FIVE YEARS

OW131040 Beijing XINHUA in English 1030 GMT 13 Jan 86

[Text] Beijing, 13 Jan (XINHUA)--Industries throughout China have markedly improved their efficiency by increasing output and profit and reducing energy consumption over the past five years, according to a national conference on economic work now in session.

An official of the state economic commission said that China has fundamentally changed the focus of its economic work to consider results as the criteria for judging all economic matters.

Gross industrial output value grew at an average annual rate of 10.6 percent during the last five years. About 50 percent of the increased output value was gained through technical transformation and the management improvement. Energy savings amounted to 120 million tons of standard coal.

The quality of industrial products has also been improved. In the past few years, more than 4,000 new machines were developed and over 500 light industrial goods achieved world standards.

Per capita output in state-run industries came to 14,070 yuan in 1984, a rise of 16.5 percent over 1980. It rose 9.8 percent in the first eleven months of last year.

/9738

CSO: 4020/172

6 February 1986

## ECONOMIC MANAGEMENT

## NEW PROBLEMS POSED FOR PLANNED MANAGEMENT SYSTEM REFORM

Beijing JINGJI RIBAO in Chinese 12 Oct 85 p 2

[Article by Xue Muqiao [5641 2550 0294] , chairman of the State Council Economic Research Center and director of the State Planning Commission Economic Research Institute: "New Problems for the Reform of the Planned Management System"]

[Text] [Editor's note] China's past planned management system has become unsuited to current economic developments.

The guiding principle of our planned management system reform is to appropriately reduce directive planning, appropriately increase guidance planning and appropriately expand the scope of market regulation. Thus, it has posed new problems:

--How can guidance planning be carried out in order to be able to truly guide enterprises to develop in the direction indicated by state planning and social needs?

--After market regulation is expanded, how can market management be correspondingly improved in order to be able to avoid violations of law and discipline and anarchist conditions?

--Macroeconomic control must be guaranteed and the microeconomy invigorated. How should new methods be used to manage enterprises after they are invigorated?  
[End of editor's note]

China's past planned management system has become unsuited to current economic developments. Old China's economic structure was originally a network, centered in small, medium and large cities. Beginning during the period of the First 5-Year Plan, we studied the Soviet Union planned management system and carried out vertical management divided by industry. Although we also had local planning for all areas, it was "planned" horizontal management and neglected horizontal links. This closed planned management system was contradictory to the needs of open commodity economy development. Horizontal links were essential economically, but were not reflected in planning, and planning for horizontal economic links was not expressed. This planned management system, which did not conform to the objective needs of a commodity economy and large-scale socialized production, inevitably stifled the economy. Before

liberation, Hong Kong was economically inferior to Shanghai. But over the past 30-odd years, Hong Kong has developed into the biggest financial, trade and information center in the Far East, while Shanghai has severed its many former domestic economic links, and its international economic position has also declined. It cannot be said that this was unrelated to our irrational planned management system. Of course, it was also related to the past imperialist policy of blockading China and to our long-term adoption of a closed-door policy.

Since the 3d Plenum of the 11th CPC Central Committee, we have begun to change our separate vertical and horizontal economic management system and develop horizontal links which conform to objective economic laws. We are restoring our economic network, centered in small, medium and large cities, encouraging interregional overcoming of shortcomings by learning from others' strong points, mutual aid, mutual benefit and joint development and carrying out an open-door policy. In order to develop a commodity economy, we must have markets and, in order to develop the role of markets, we must have open markets and absolutely not set up separate vertical and horizontal closed ones. They must be open to the outside world and even more so domestically. A planned commodity economy must have open markets. Comrade Xiao Hua [5135 5478], chairman of the CPPCC Proposals Committee, has correctly said that we are now forming an "economic structure which has an interlocking vertical and horizontal network but takes horizontal links as the dominant factor, i.e., one which combines vertical and horizontal but stresses the horizontal." Our planned management system must conform to this new economic structure. Those totally vertical or horizontal planned management methods will soon be obsolete. The planning system must undergo fundamental reforms.

Our understanding of the relationship between planned management and market regulation has continued to change. Since the 3d Plenum of the 11th CPC Central Committee, our understanding of this problem has undergone many years of investigation. In 1980, we pointed out that China's socialist economy was a commodity economy based on public ownership of the means of production and guided by state planning and that our planned management should therefore combine planned and market regulation. The market regulation referred to at that time included two aspects. One was guidance planning, which has to be realized through economic levers, and principally through the law of value and price policy. We said that this combined planned and market regulation. The other was regulation of small commodities which were not in line with state plans, and relied totally on the law of value. Later, theoretical circles debated the wording of "a commodity economy guided by state planning," thinking that guidance planning implied a planned economy and not a commodity economy, and that thus it reduced the scope of market regulation and limited it to only commodity production and circulation which was not in line with state plans. Therefore, we changed the method of expression to say that China's socialist economy was a planned economy, with the planned economy as the dominant factor and market regulation as a supplement. Internationally, this change caused much misunderstanding and the understanding that China's economic system reform was retreating and neglecting the role of market regulation. In fact, our system reform was constantly advancing and, indeed, not retreating. In the past, our planned management stressed only directive planning and neglected guidance

planning. The 12th CPC Congress Report pointed out that planned management includes both directive and guidance planning and emphasized, moreover, that not only must guidance planning be realized through the economic levers of prices, tax revenue and credit, but that directive planning must also conscientiously use the law of value. After this, the State Council pointed out the need to reduce the scope of directive planning and expand that of guidance planning. Moreover, the scope of small commodities not in line with state plans was also constantly expanding. China's planning system reform was advancing and, indeed, not retreating.

The resolution of the 3d Plenum of the 12th CPC Central Committee pointed out that China's socialist planned economy is a planned commodity economy, based on public ownership of the means of production, which integrates a planned and a commodity economy. China's commodity economy is a planned commodity economy and, thus, a planned economy that is different from an unplanned capitalist commodity economy, which relies completely on unchecked regulation by the law of value. In practical work, we must stress the role of market regulation, master the use of markets and change closed markets into open ones. This point should be insisted upon. A commodity economy must have markets, which should be open and not closed. Closed markets are unfavorable to commodity circulation and, whether closed vertically or horizontally, will obstruct development of a commodity economy. How to expand open market commodity exchange is a problem in urgent need of solution in our current economic system reform.

Saying that a socialist economy is a planned commodity economy is a major theoretical breakthrough. Prior to the 1950's, the Soviet Union had continuously debated the problem of whether commodities still existed in socialist society. It was not until Stalin's later years that he accepted that socialist society still had commodities. But at the same time, he also said that the exchange between socialist state-run enterprises, in fact, was not commodity exchange. Thus, the planned management system which they designed used product distribution in place of commodity exchange. They used planned distribution of the means of production, and markets to exchange the means of production did not exist. Grades 1, 2 and 3 consumer goods wholesale centers also used planned distribution, and it was not until the retail link that goods were put on commodity exchange markets. From the 1950's to the 1970's, China also continued to use this system. The reason for this, in addition to our having learned it from the Soviet Union, was also that our planning strove for high speed, causing both the means of production and consumer goods to be in very short supply, and that we had to use planned distribution. Because our economic regulation work has been successful since the 3d Plenum of the 11th CPC Central Committee, our present consumer goods supply has become increasingly abundant and we have been able to abolish the rationed supply system. Thus, a breakthrough has been made in the planned distribution system of grades 1, 2 and 3 wholesale centers, and commodity exchange markets of multichannel state-run, collective and individual management have developed. All cities are building trade centers of all forms and carrying out transindustrial and transregional horizontal commodity exchange.

Since our fixed-asset investment has exceeded state plans year after year, our means of production are still in fairly short supply and we must continue to use

the planned distribution system. But planned supply has become increasingly unable to satisfy needs, negotiated purchase and sale have also had to be used as a supplement and, in fact, extra-plan commodity exchange of the means of production has appeared. At present, the scope of planned supply is gradually being reduced, with that of coal being only roughly 50 percent, steel products only 60 percent, lumber only 40 percent and cement only 25 percent and, in fact, a lot of market regulation has appeared. But since business markets for the means of production have not been officially established (a few cities are experimenting with them), this kind of commodity exchange has suffered from obstructions, resulting in overstocking and overaccumulating of goods and materials by many enterprises and great disparities between high and low negotiated prices. If business markets for the means of production are widely established, goods and materials stocked and accumulated by enterprises can move onto markets for mutual exchange, the short supply condition of the means of production can be greatly alleviated and negotiated prices can also fall to a more rational level. Thus, I suggest that goods and materials supply departments try out two goods and materials management methods, one being to carry out planned supply based on planned prices, and the other to establish extra-plan business markets for the means of production and to carry out negotiated purchase and sale. At present, we must carry out a policy of combined regulation and liberalization for planned distribution prices of such means of production as coal and steel products. Planned prices must be adjusted gradually. For extra-plan exchange, we must relax price management and carry out negotiated purchase and sale. We must also not take a laissez-faire attitude toward the negotiated purchase and sale sector. We should widely establish negotiated purchase and sale markets in which goods and materials departments can play a market regulation role.

At present, the guiding principle behind reform of the planned management system is to appropriately reduce directive planning, appropriately increase guidance planning and appropriately expand the scope of market regulation. This guiding ideology is undoubtedly correct. Thus, it has posed new problems. How can guidance planning be carried out so as to truly guide enterprises to develop in the direction indicated by state planning and social needs? After market regulation is expanded, how can market management be correspondingly improved in order to avoid violations of law and discipline and anarchic conditions? The success of guidance planning must rely on economic levers, the law of value in particular. We must gradually master and use the spontaneous, regulatory role of the law of value.

Under the conditions of the relative reduction of state financial responsibility for capital construction allocation and the constant expansion of bank loans for fixed-asset investment, controlling bank loans has become an important way to control the scope of fixed-asset investment. In 1984, China founded a central bank (still called the China People's Bank). Its major duties should be to control the amount of currency issued, control fixed-asset loans and avoid credit expansion. In the past, inflation always stemmed from financial deficits. At present, unrestricted bank loans could become another major cause of inflation. China's banking system has not yet been fully established and the central bank has still not fully developed its restrictive role. In addition to controlling the total amount of loans, the central bank must also guide all specialized banks to use loans for the most essential aspects and guide the national economy to develop in the direction indicated by state plans.

Tax revenue, of course, is also an important economic lever. Since carrying out the second stage of reform, substituting taxes for profits, we have sought to use product taxes to alleviate the contradictions caused by irrational prices. Product taxes can only temporarily alleviate contradictions, but cannot basically solve the contradictions caused by irrational prices. Therefore, tax rates and price modifications must be closely coordinated. Much work remains to be done in order to develop the regulatory role of tax revenue. We must similarly strive to learn in this area.

At present, our economic structure is developing from vertical links toward horizontal links between regions and industries, and our planning work must correspondingly keep pace. Since the 12th CPC Congress proposed quadrupling the GVIAO within two decades, many regions and even various industries within regions have been out of touch with each other, have not planned or cooperated with each other and have made their own plans for quadrupling. I have made repeated appeals that quadrupling must be uniformly planned throughout China. This is a very difficult new task of planning work. Recently, several provinces and municipalities have held economic strategy development conferences. At two such conferences, I made the appeal that strategy should be based in one's own province and municipality and be geared to the needs of the whole country and even the whole world. In order to enable interregional horizontal cooperation to develop faster, to be more rational and to achieve the best economic results, we should carry out national coordination. But this coordination is very complex. Therefore, based on separation of political and business functions, all CPC Central Committee and State Council departments should do a good job of planning and coordinating all industries and then, based on this, carry out national planning and coordination. In addition to national coordination, we can also build such regional economic cooperation as the Greater Shanghai Economic Cooperation Zone (including southern Jiangsu and Zhejiang's Hangzhou, Jiaxing, and Ningbo), which is being prepared to be established; the Southwest Economic Cooperation Zone, centered in Chongqing; and the Zhu Jiang Delta Economic Cooperation Zone, centered in Guangzhou. At the Shandong Economic Development Strategy Conference, I also suggested the establishment of the Bohai Bay Economic Cooperation Zone. Through fairly relaxed forms of economic cooperation, a horizontal planned management system will gradually be formed. This matter is beginning to be placed on our agenda.

In summary, our planned management system must be changed. Macroeconomic control must be guaranteed and the microeconomy invigorated. Everyone's thinking on this point has been unanimous. At present, the new problem which is posed for us is how we should use new methods to manage enterprises after they are invigorated. Of course, this management should not resume the ordered planning which has been reduced, but must use new methods, such as planning, coordinating and providing information. The key is to stress two aspects, one being the need to be good at using economic levers, and the other the need to improve horizontal economic coordination. This is a new problem which must be studied from the very beginning. In addition, our management must also be carried out according to national laws and decrees. For instance, we must strictly prevent activities which clash with state planning and reform work, such as violating state stipulations, arbitrarily raising prices and arbitrarily issuing bonuses, subsidies and various material incentives. This management



will have a very strong political nature. Overmanagement could stifle the economy and overliberalization could create market disorder. Thus, we must improve our economic legislation, strengthen our law-enforcement organizations (such as industrial and commercial management offices), raise the political and ideological levels of our cadres, learn from the good example set by the resolution of the 3d Plenum of the 12th CPC Central Committee, grasp its essence and make this management follow and not violate our economic system reform direction. Of course, in addition to industrial and commercial offices, such departments as pricing and personnel bureaus should all improve their management, and industrial, youth and women's groups can also be organized to carry out mass surveillance.

12267/12274

CSO: 4006/289

ECONOMIC MANAGEMENT

BETTER QUALITY CONTROL NEEDED IN COLLECTIVE ENTERPRISES

Beijing JINGJI RIBAO in Chinese 23 Oct 85 pp 1,2

[Article by Zhu Rongji [2612 6954 1015], deputy director of the State Economic Commission General Bureau: "Quality Control in Collective Enterprises Must Be Improved"]

[Text] During a recent investigation in such places as Chengdu and Shanghai, we discovered that the problem of inferior product quality was quite serious in some collectively owned enterprises (such as rural and township enterprises, joint-run commercial enterprises, urban neighborhood enterprises, campus workshops, state-run enterprises, intellectual youth sites and labor service companies).

According to tests by the Chengdu Electric Welder Research Institute, 37 of 40 products produced by 13 electric welder plants in Chengdu City were substandard. Of these, in addition to 1 of 4 tested products produced by a state-run enterprise (The Chengdu Electric Welder Plant) being substandard, all of the 36 tested products produced by the other 12 collective enterprises (mostly rural and township enterprises) were substandard. These collective enterprises have had very wrong management ideas, have manufactured in a rough and slipshod way, have done shoddy work and have used inferior materials, falsified nameplates and have produced products of very poor quality, safety, reliability and performance. For instance, the Emei Machine Plant has violated electrical equipment insulation protection stipulations and used plywood instead of aluminum plates to make electric welder casings which emit black smoke after 2 hours of electrical testing. Three plants have actually continued to produce obsolete products, whose production had been explicitly prohibited by the state long ago. Even though these products are of such inferior quality, they have still been able, for a variety of reasons, to be produced and sold in large numbers, and 4,643 of them, constituting approximately 6 percent of the total output of electric welders throughout China, were produced during 1984 alone.

Shanghai Municipality now has the following five kinds of enterprises with very poor quality control: 1) collective enterprises, which are the responsibility of the Collective Enterprise Office; 2) rural and township enterprises, which are the responsibility of the Agricultural Machinery Industry Bureau; 3) labor service companies and intellectual youth collective enterprises, which are managed within the various industrial bureaus; 4) commercial enterprises;

5) enterprises which are jointly run by the municipal commercial system and other parts of China. According to recent Shanghai Municipality tests of less known and inferior brand television sets, which are marked with the words "Shanghai, China," most of these products are produced by certain "jointly run plants" which do not have the production qualifications. For instance, eight of nine Shanghai Municipality jointly run television set plants in the southern Jiangsu area are commune- and village-run plants, which basically do not have the production technology qualifications. A Shanghai plant which produces marine diesel engines, joined, in its capacity as a plant labor service company, with a Wuxi instrument plant in 1984, purchased inferior components in the Chang Jiang-Zhejiang area and produced over 1,400 "New China Brand" television sets. The first lot was sold in Jiangxi Province, but consumers strongly opposed their poor quality and, one after another, demanded that they be returned.

Judging by the many letters received from people during a recent period, the problem of product quality in collective enterprises does not exist only in such places as Chengdu and Shanghai and absolutely does not simply involve a few products, such as electric welders and television sets, but is quite common throughout China. If it is not solved conscientiously and goes unchecked, it may develop into a serious social problem and shake the people's sense of confidence in our industrial products. While continuing to pay close attention to making general investigations of product quality in state-run enterprises, economic commissions at all levels must conscientiously improve quality control and supervision of collective enterprises and private households. This will not only ensure the successful accomplishment of the four modernizations and safeguard the interests of the state and the masses of consumers, but will also promote the healthy development of these enterprises.

How can quality control in collective enterprises be improved? Opinions from various quarters can be summed up in the following five points:

1. Units In Charge of Collective Enterprise Work Must Set up Quality Control Organizations, or Appoint Someone To Be in Charge of Quality Control and Supervision; Enterprises Themselves Should Also Have Special Organizations or Someone To Be in Charge of Quality Inspection and Control

All enterprises, no matter what products they produce, must observe definite standards and live up to specified quality requirements. Those producing state-standardized products should observe state standards; those producing products which do not have state standards, but which have special standards, should observe special standards; those producing products which have neither state nor special standards, should still observe enterprise standards approved by their responsible units and carry out production and product examination strictly according to standards. The State Economic Commission Standardization Bureau is responsible for inspecting and supervising this. Collective enterprises must also firmly carry out the "five-prohibition" principle and be responsible for "three guarantees" of the products which they have produced.

2. Quality Control for Trade-Classified Products Should Be Carried Out for Collective Enterprises

All collective enterprises, regardless of their subordinate relations, must be subject to state product quality control. Since collective enterprises and the

departments in charge of their work now generally lack the essential standardization, calculation and inspection methods, it is very difficult for state control to be implemented fully. This task must be accepted by each classified industrial department. Each trade-classified management department is responsible for formulating trade development plans and policies and guiding its trade's product production, and each also has quality-inspection organizations and quite good inspection methods and technical forces. Thus, each has the responsibility and obligation to carry out its own quality control for trade-classified products (not only of state-run enterprise products, but also of collective and private enterprise products). This classified control will not change enterprise subordinate relations, nor will it interfere with enterprise production, supply, marketing, personnel or property, but will be unified product quality inspection, control and guidance, in order to change the past situation of departments controlling only state-run enterprises and "large collectives" and not collective enterprises and private households. The first step can be taken with the products produced by both state-run and collective enterprises. Problems discovered through inspections should be strictly handled by governments at all levels, departments responsible for collective enterprise work and industrial and commercial administrative departments. The State Economic Commission Quality Control Bureau should organize quarterly state-authorized "state quality-control tests," which must also include collective enterprises.

3. A Checkup and Reorganization Should Be Carried out of Collective Enterprises That Produce Important Means of Production and Consumer Products Which Are in Short Market Supply and Great Demand

Through checkups, enterprises which do not have the basic production qualifications, the minimum technical equipment and inspection methods and standard product quality, and which have inferior product quality, should be ordered to close down and stop or transform production; concerned and responsible people who violate the law and discipline should be strictly dealt with according to law. Recently in Wuxi, Jiangsu, such units as the municipal economic commission, the electronics bureau and the industrial and commercial bureau, cooperated closely under municipal government leadership to check up on the city's 86 television set assembly plants. Through product tests and production qualification examination, they resolutely closed 70 production plants which had very poor qualifications. This method of work is correct and essential.

4. The Opening for Business of Collective Enterprises and, Particularly, Processing Enterprises, Must Be Examined Conscientiously and Strictly Checked

At present, business licenses are being issued without strict examination of industrial enterprises, resulting in the legal opening for business of many enterprises which do not have the basic production technology qualifications. Not only has this caused a lot of inferior product quality, but it has also caused unrestricted production and duplicate construction and aggravated our irrational production distribution and economic structure. From now on, when examining collective enterprises which apply to open for business, industrial and commercial administrative departments in all areas should solicit opinions

from trade-classified industrial management departments and confirm that these enterprises conform to trade development plans and have production technology qualifications and standard product quality before approving their opening for business.

#### 5. Guidance and Support in the Area of Improving Product Quality Should Be Improved for Collective Enterprises

Economic commissions at all levels, trade-classified departments and standards-measurement departments, in addition to having to inspect and control the product quality of collective enterprises, must also take the initiative to provide them with information, such as product technology standards and technical information, help them make diagnoses, and accept such tasks as giving them technical advice and measurement inspections. These departments must be good at organizing scientific research design units, colleges and universities, large and medium-sized state-run enterprises and "large collective" enterprises to improve their product design, transfer their technical achievements, improve their production technology, renew their technical equipment and improve their management and administration. Recently Sichuan Province, when reorganizing Chengdu's electric welder production, asked the Chengdu Electric Welder Research Institute and the Chengdu Electric Welder Plant to provide technical aid to collective enterprises, in order to help them produce quality products. This method of work is very good.

The above-mentioned tasks, which are both very important and urgent and also quite complex and difficult, will require us to indulge in less idle talk, be more practical and realistic and solve each concrete problem in a down-to-earth manner, in order to enable product quality of collective enterprises to improve greatly and as quickly as possible.

12267/12274

CSO: 4006/289

## ECONOMIC MANAGEMENT

### SICHUAN'S ECONOMY INVIGORATED THROUGH REFORM

Chengdu SICHUAN RIBAO in Chinese 25 Oct 85 p 1

[Article by Niu Po [3662 3124]: "Reform Brings Vitality to Sichuan's Economy; Production Increases Steadily, Economy Develops Proportionately, Urban and Rural Markets Flourish, Financial Revenue Increases"]

[Text] The reform of the economic system in Sichuan, with cities as the key, is developing healthily. Production is increasing steadily and the economy is developing proportionately; the rural production structure has been newly readjusted; the urban and rural markets are flourishing, financial revenue and savings of urban and residents have increased, departments concerned are adopting measures to solve problems that crop up in economic life.

Many factories in Sichuan have introduced the factory manager responsibility system, reform of the cadre system, personnel system and labor and wage systems in enterprises are also being carried out at the same time. The delegation of authority to the lower level by enterprises under the province has basically been completed, mandatory plans in industrial production have been cut by nearly one-half over last year while guidance plans have increased considerably. Sichuan's total output value from January to September this year increased by 20.3 percent over the same period last year. Products that registered a marked increase were: automobiles, 2.3-fold; TV sets, 57 percent; taperecorders, 46.9 percent; washing machines, 42.5 percent; refrigerators, 10-fold; motorcycles, 1.1-fold; and beer, 63 percent.

The ratio between agriculture, light and heavy industries in Sichuan is gradually becoming rational after readjustment. While the investment in productive construction increased steadily, investment in nonproductive construction projects has also increased considerably, with housing, public utilities and cultural facilities for residents having also improved to a certain extent. The urban and rural markets are thriving with brisk buying and selling. Sichuan's commerce purchased 9.8 percent more from January to September than in the same period last year, of which the purchase of industrial products rose 19.5 percent. Sichuan's total value of retail sales rose by 21.8 percent over the same period last year, country fair trade increasing 26.5 percent.

Commodity economy has developed further in Sichuan following the initial readjustment of the rural production structure. Although a poor grain harvest may be expected this year, rural income will increase. Animal husbandry, the fruit industry and rural and township enterprises in Sichuan have been further developed, industrial crops have also increased considerably, of which oil-bearing crops are expected to increase more than 30 percent, oranges and tangerines more than 10 percent, cured tobacco about 20 percent, hogs slaughtered are expected to increase by 5 million head, the output value of rural and township enterprises is expected to increase by more than 40 percent.

Increases were also registered in Sichuan's financial revenue and savings of urban and rural residents. Sichuan's financial revenue from January to September rose 24.24 percent over the same period last year, which was higher than the province's industrial growth. The savings of urban and rural residents from January to September increased 40.5 percent over the same period last year, of which the cities reported an increase of 41.5 percent and the countryside an increase of 17.9 percent.

While the situation is excellent, certain problems have remained, various departments concerned are taking positive measures to solve them.

12662/6662

CSO: 4006/483

ECONOMIC MANAGEMENT

THREE PROBLEMS CONCERNING REFORM OF KEY CITIES

Beijing LIAOWANG ZHOUKAN [OUTLOOK WEEKLY] in Chinese No 44, 4 Nov 85 pp 9-11

[Interview with Liao Bokang [1675 0130 1660], Secretary of the Chongqing Party Committee, by Chen Ming [7115 2492] and He Yubai [0149 3768 2672]; date and place not given]

[Text] In the reform of our economic system, Chongqing is the first testing point for instituting the overall reform of the economic system and the first large city to adopt a provincial-level plan. Because of its special status, the city has created widespread interest domestically. How well has this city done in bringing about reforms during the past 2 years? What understanding have the people in Chongqing acquired from their experience in engaging seriously in the reform of the city? With these questions in mind, the reporters arranged a special interview with Comrade Liao Bokang, secretary of the Chongqing party committee.

First Group of Crab Eaters Develops Taste for Delicacy

"It was Lu Xun [7627 6598] who said that it would take some courage for the first person to eat crabs. We have 12 million crab eaters in Chongqing and the crab in question is the reform of Chongqing's economic system." It was in this lighthearted vein that Comrade Liao Bokang prefaced his remarks. He said that although Communist Party members had moved into the cities over 30 years ago, nobody could lay claim to being experts in urban reform. In order to explore ways and means to bring about such reforms, the CPC Central Committee in 1983 selected Chongqing as the testing ground for the introduction of reforms. Thus, the people of Chongqing became the first group of "crab eaters."

The chief mission of Chongqing as a testing ground for reforms is the development of the key role played by the city and especially the discovery of a way by which the large and medium-sized cities can fulfill their role in organizing the economy. That, in fact, poses a challenge to the old economic system which, like a rope, securely tied up the productive power of the cities. The difficulty of breaking through the old system and of unleashing the productive power of the cities can easily be imagined. Chongqing is a large comprehensive city with extensive economic activities and an intricate pattern of economic relations. To enable it to deal with its economic relations and to



perform its functions as a testing ground, the CPC Central Committee and the province created the necessary conditions for Chongqing by drawing up an exclusive plan for the city, by giving it the power of economic control on the provincial level and by placing enterprises subordinate to the province and certain enterprises subordinate to ministries under the city's jurisdiction.

After having been granted autonomous powers, Chongqing proceeded to conduct experiments in three different areas. First, it brought about the reform of small setups throughout the city to alter the longstanding practice of eating out of two big pots, so as to invigorate the enterprises.

Second, it established a trade center so as to facilitate circulation of commodities. The 118 trade centers of various types which have so far been set up have played a positive role in promoting production and bringing prosperity to the marketplace.

Third, it sought to develop fully the composite role played by cities. In this connection, it put forward the proposal that "public vehicles" in the southwest should be properly developed. In April of this year, it served as host in convening the second meeting for economic cooperation of the "four provinces and autonomous regions and five localities" in the southwest. At the meeting, the guiding principles put forward by Chongqing regarding the need for "self-reliance, unification of the various quarters, state support and joint efforts to promote development" were well received by the State Council. Chongqing is now engaged extensively in projects of cooperation with four provinces and autonomous regions in the southwest.

It now appears that Chongqing has put its finger in the right spot in all these areas. What are the results? "One of the results," replied Liao Bokang, "is that city's economic results have greatly improved." Taking financial receipts as an example, he pointed out that during the 4 years prior to the comprehensive reform in Chongqing, financial receipts made hardly any gains, averaging a net annual increase of only some 19 million yuan. In the 2 years following the comprehensive reform, financial receipts increased at the surprising average annual rate of over 98 million yuan. Financial receipts for the first 8 months of this year showed a net increase of over 295 million yuan, the highest rate of increase in the nation. At that point, Liao Bokang said with a tone of conviction, "It can be seen that the crab of comprehensive reform is good to the taste. However, tasty as it is, the crab has a hard shell. Many problems remain. We have learned from our experience that to invigorate the economy of the city, we must invigorate the enterprises and that to invigorate the enterprises, we must invigorate the marketplace. The invigoration of the marketplace not only calls for the invigoration of commodity circulation but also the establishment of a flawless market system. That calls not only for a more or less flawless consumer goods market, but also a market for the means of production, science and technology, labor and, in particular, a financial market that provides for flexible financial accommodation."

Liao Bokang is of the opinion that it is extremely difficult to establish a market system. Although Chongqing has made some headway in this area, the establishment of a financial market is beset with difficulties. Without a flexible financial market, it would not be possible to invigorate the market or the economy of the city. For this reason, we must invigorate the financial system if the key cities are to play their full role. The existing financial system, however, is a partitioned one. The banks in the various areas have no means by which to accommodate one another financially. Those who do business away from home have to load themselves up with 10-yuan notes strapped to their waist. How this situation evolved is a matter that calls for deep thinking. Lenin had occasion to compare a bank to an extremely ingenious machine. If the banking machine is out of order, the role that is played by a key city is bound to be adversely affected.

### "Letting the Bull Out of the Well"

To release the productive power of a city, we must make an accurate assessment of its economic power. Liao Bokang likened the economic power of a city to a large and mighty bull. Under the old system, the large bull was cooped up in a well and, powerful as it might be, had no means of freeing itself. If the large bull is to put its strength to good use, it must be allowed to jump out of the well as represented by the old system. In other words, the economic activities of a city must be freed from the limitations imposed by administrative levels and administrative divisions. It was for this reason that special plans were made exclusively for several large cities. Liao Bokang explained that the purpose of making exceptions to the plan was not to add a few more "Beijings, Tianjins and Shanghais," because "Beijing, Tianjin and Shanghai" are municipalities directly under the jurisdiction of the central government and their economic and administrative management levels are not entirely separated.

Actually, this is the third time that a plan has been made exclusively for Chongqing. One was made in the 1950's and another in the 1960's. Due to the fact that the idea of developing the socialist planned commodity economy had yet to be accepted, there was no way to demonstrate the merits of exclusive planning. This time, however, the whole Communist Party, after having put the emphasis of its work on economic construction to meet the demands for the development of a planned commodity economy, has made the exclusive planning for a few large cities a major reform measure to unleash the productive power of the cities and to permit the key cities to play their roles to the full. There is, therefore, a vast difference between this plan and the two previous plans. According to this exclusive plan, letting the large bull out of the well is a must. Our experience in Chongqing indicates that the granting of power of economic control on the provincial level to the key cities will have far-reaching effects insofar as the reform of our economic system is concerned. Liao Bokang emphasized that for a city the size of Chongqing -- a city that is still under the jurisdiction of the provincial government and for which exclusive planning has been made -- to be turned into a unit with a larger measure of economic autonomy for planning, is a matter whose significance cannot be overestimated.

Vast changes have taken place in recent years in the economic activities in Chongqing. On the one hand, as a city under the jurisdiction of a province, it must continue to engage in various economic activities within the province. On the other, such activities, which used to be pursued through administrative relations, must now be brought about through the exchange of commodities in order to keep pace with the development of the commodity economy.

Furthermore, Chongqing has also made use of its exclusive planning status to study ways and means to develop lateral economic relations among different regions. For instance, at the meeting of "the four provinces and autonomous regions and the five localities" in the southwest, Chongqing concluded agreements with the four provinces and autonomous regions for over 1,000 cooperative projects not included in the directive plan or the guidance plan of the state and which were not the results of market readjustments. Nevertheless, these cooperative projects are being carried out systematically according to a plan and with a purpose. Is that a new pattern for the development of a planned commodity economy? Liao Bokang is of the view that it is at least something worthy of experimentation.

Liao Bokang also stated that the socialist economy must have an overall balance, a balance not only between the departments and within the regions, but also a balance between the departments and between the regions. Where does the balance point or junction point fall? It can only fall in the cities. Doubtlessly, the use of the exclusive plan helps to develop the functions of the balance point or junction point of the cities. Chongqing has suffered enough from the consequence of being cast into a well. Now that the bull is being liberated from the well, it can be said to be full of beans and ready to show its mettle. At that point, Liao Bokang gave a smile of gratification. To substantiate what he had to say, he added that experience during the last 2 years pointed to this fact: If the governments at various levels were to exercise indirect instead of direct control over the enterprises and better use were made of the economic and legal means, then the productive power of the cities would be further unleashed and the pace of the reform of the economic system would be greatly accelerated.

#### "Raising Chickens for Laying Eggs" Also Applies to Cities

Turning to the need to strengthen the power of radiation and attraction of the cities, Liao Bokang expressed the view that in the process of developing the commodity economy according to a plan, an enterprise must have a number of hot-selling products if it is to survive. In the same way, a city must have a number of key enterprises if it is to have real power and a nation must have a number of key cities with abundant economic resources which are capable of performing a variety of functions to serve as a mainstay of the entire national economy and to provide impetus to the development of the surrounding regions in order to establish a community of cities formed by large, medium-sized and small cities if they are to achieve modernization on a nationwide scale.

Liao Bokang also elaborated on his personal views regarding the actual situation in Sichuan. Why has the province, known as "the land of heavenly abundance," not been able to develop as rapidly as certain other provinces and cities? One major reason, he said, is the absence of a community of inter-related cities. Taking Jiangsu as an example, a small region is formed by Nanjing, Zhenjiang, and Yangzhou. Another small region is formed by Suzhou, Wuxi and Changzhou. Both of these regions are being rapidly developed economically. There are, however, no such cities in the entire eastern part of Sichuan and the area within a 500-li circumference around Chongqing which, consequently, stands in isolation and without support. Liao Bokang reiterated that, far from wishing to continue to stand alone, Chongqing fervently hopes that medium-sized and small cities would develop rapidly so that they could form a network of cities.

In reply to the question put by the reporters as to how this aspiration could be achieved, Liao Bokang expressed the opinion that use should be made of the development of key cities to spur on the development of the surrounding medium-sized and small cities, that support should be given to the rich to aid the poor but that aid should not be given to the poor by oppressing the rich. Unless this principle is accepted, nothing can be developed and a number of impoverished partners will be left to gaze at each other in dismay. Despite its size, Chongqing is poor. It is only just beginning to come to life. We often talk about "raising chickens for laying eggs." It is only when "chickens" are raised properly that they can be expected to produce. Doesn't this truth apply equally to cities? This is a problem that merits serious consideration and study.

Finally, Liao Bokang enlarged on the significance of experimenting with reforms. If we are to continue to introduce reforms, he said, we must continue to engage in experiments. As everybody knows, the leadership comrades in the party Central Committee have again and again emphasized that reforms must take precedence over all other tasks and that we must hold firm to our resolve and exercise caution in going about our task. That, he said, goes to show the necessity as well as the complexity of reforms. According to what he had learned from his experience during the past 2 years, he was convinced of the need to proceed with caution and to continue to engage in experiments and that reforms are attended by unknown factors and certain risks. The purpose of experimentation, he said, is to gain experience, to learn from our experience and to reduce the number of detours.

At the conclusion of the interview, Liao Bokang stated with confidence that, although the reforms are encountering certain difficulties, the party Central Committee is firm in its determination, that the masses are united as one in their desire for reforms, and that the nation's political and economic situation is most favorable. We in Chongqing are prepared to continue to feed on the crab.

9621/12948  
CSO: 4006/382

ECONOMIC MANAGEMENT

MANAGEMENT, ADMINISTRATIVE TYPE PUBLIC FINANCE DISCUSSED

Kunming JINGJI WENTI TANSUO [PROBING ECONOMIC QUESTIONS] in Chinese No 9, 1985  
pp 37-39

[Article by Zou Chuanjiao [6760 0278 2403]: "On Public Finance of a  
Management and Administrative Type"]

[Text] Public finance of a management and administrative type was proposed by the Central Committee to deal with the exclusive concern about finance which exists, to a great extent, in present public finance departments, i.e., the one-sidedness of talking about finance in isolation and being bogged down all day long in handling financial revenue and expenditure. From the perspective of China's current practice, public finance departments should not become reception and circulation departments for bank notes, but must learn such money-management methods as producing, accumulating and using money and must become state management and administrative departments. Theoretically, this is a major revelation in understanding the state public finance function and, in practice, forms an important basis for the carrying out of our financial system reforms.

1. State financial distribution is macroeconomic management. Public finance management and administrative type refers to the objective role played by state finance in the unified planning, regulating, controlling, organizing and directing of overall national economic activity through the process of distributing social products and national income. It is an objective requirement for the state in realizing its functions.

Our past stressing of only the two basic public finance functions of raising and supplying funds and neglecting of those of regulating balances and supervising was quite one-sided. Therefore, in the actual organization of financial distribution, our turning of public finance departments into reception and circulation departments, for bank notes and neglecting of macroscopic regulation and supervision of financial distribution for the whole national economy was unable to turn public finance departments into state management and administrative departments to manage the national economy. This was caused mainly by our incorrect understanding of the public finance function.

Regarding financial distribution as macroscopic management or saying that it has the function of managing the national economy, i.e., planning, controlling, regulating, supervising and directing it, is determined by the socialist economic system and the state's functions. We know that state finance is a distribution and redistribution of the total social product and national income, taking state power as the dominate factor, which is carried out by the state in order to realize its functions and relying on its political power. China is a socialist state established on the basis of public ownership of the means of production. It not only has the function of suppressing revolts by class enemies, preventing aggressions and subversive activity by foreign enemies and ensuring that all the people can work peacefully, but also that of organizing and leading economic and cultural construction.

Based on many years of practical experience, the major economic management functions of government organizations should include: formulating economic and social development strategy and planning principles and policies; formulating laws for natural resource exploitation, technological transformation, and intellectual development; coordinating development plans for the economic links between regions, departments and enterprises; establishing construction of key projects, particularly in the energy, communications and raw materials industries; collecting and spreading economic information and mastering and using economic regulation measures; formulating, supervising and executing economic laws and regulations; appointing and dismissing cadres according to stipulated limits; managing foreign economic and technical exchange and cooperation. This points out the direction and provides the basis for us to study public finance of a management and administrative type. Public finance is the distribution and redistribution of social products in order to realize the state's functions and also, naturally, can only be macroeconomic management and administration. Of course, the public department is one of the government's major functional departments and its functions are determined by the state's nature and functions. I think that the state's need for public finance includes the following two aspects: first, it needs public finance to participate in the distribution and accumulation of appropriate shares of the social product and national income and to ensure funds needed for the operation of the state apparatus and the rapid development of socialist economic and cultural construction; second, in the process of distributing social products and national income, it needs public finance to reflect, restrict, regulate balances of and supervise all national economic activity through revenue and expenditure and to promote the continuous development of socialist productive relations and superstructure.

Therefore, Premier Zhao Ziyang pointed out emphatically in his recent government work report, "Current Economic Conditions and Economic System Reform," that "All economic management departments, and especially economic synthesis, supervision and inspection departments, must improve their study of macroeconomic conditions and economic regulations measures, do a good job of essential balance coordination and regulation work, take strict precautions against major run away economic activity and ensure that major economic reform errors not occur, or that if some minor ones do, that they can be corrected promptly. Public finance, banking, auditing, tax collection, customs,

pricing, statistical, industrial and commercial management and administrative departments must all fulfill their duties conscientiously." I think that this is a substantive direction that public finance departments should become state management and administrative departments and state functional departments to carry out macroscopic control, direction, organization, regulation and supervision of overall national economic activity.

2. Macroeconomic management is a objective, inherent function of state financial distribution.

We know that state financial distribution has the characteristics of being mandatory and gratuitous and that it is distribution carried out on a concentrated nationwide scale. Financial distribution hold the guiding position in national income distribution. It is the state's general center for organizing, controlling and regulating national income distribution in a planned way. Approximately one-third of national income is distributed directly through public finance. Although two-thirds of it is not distributed directly public finance, it is distributed through such forms as wages, prices and credit, which must all ultimately reflect state financial distribution directly or indirectly and be restricted by public financial distribution. Moreover, from the perspective of public financial participation in national income distribution, most social net income under the socialist system is accumulated and distributed through state finance. Relevant urban statistics show that 85 percent of state-run enterprise net income is distributed through state finance.

Net income accumulated by state finance is redistributed throughout the country in order to satisfy all nonmaterial production department development needs and ensure socialist expanded reproduction needs. Socialist financial distribution extensively permeates the field of production and becomes a major factor finance funds throughout the country directly affects accumulation and consumption, and the respective internal proportional relations between accumulation and consumption restrict all national economic development proportional relations. This is because, in fact, distribution relations under the socialist system occur directly or indirectly between state finance and nearly all materials and nonmaterial production units.

As to state-run enterprises, the formation of enterprise production funds and the distribution of production management results are both carried out with the participation of public finance; the collective economy must also pay taxes to the state, while the state gives it corresponding support; culture, education, science and health are also run mainly through public financial allocation; all national defense management and administrative expenditures are provided by public finance. Therefore, proportion changes in public finance revenue and expenditure objectively have a direct regulatory effect on all economic activity. In addition, while state finance participates in the economic activity of all departments of the national economy and all economy aspects of society and regulates all proportional relations through distributing social products, it also comprehensively reflects and transmits all such economic information as the financial results of the production management activity of all departments of the national economy, the investment

in fixed-asset reproduction, the proportional and balance relations of the whole national economy and even the effect of natural disasters or unexpected accidents on the social economy through financial revenue and expenditure and balancing financial revenue and expenditure relations. For instance, state revenue department composition and growth conditions can reflect whether the national economic structure is rational, and public finance can also supervise, regulate and restrict the national economic structure. Practice has proved that the national economic structure (proportional relations) for a specific period are all formed by the yearly investment of the preceeding year's public finance and that regulation of an irrational national economic structure is also similarly realized through regulation of the financial distribution structure. Thus, macroscopic management and administration of the national economy is an objective inherent function of public financial distribution.

In order to stress ways to produce, accumulate and use money, change, to a certain extent, the current existence of the pure finance viewpoint and realize a public finance of a management and administrative type we must also fully develop the role of public financial distribution in the macroscopic regulation, direction, control and supervision of the national economy. That is, we must do a good job of planning and organizing socialist economic construction and the people's lives, do a good job of regulating and handling economic interests in all areas of society, manage, guide and supervise national economic activity and social production, circulation, distribution and consumption and ensure the normal operation and healthy development of the national economy. I think that this is the substance and essence of public finance of a management and administrative type. Specifically, the requirements of public finance of a management and administrative type roughly include the following aspects.

First, through all suitable forms of revenue, it must accumulate the necessary national income to ensure all state expenditure requirements. This is its fundamental and minimum requirement. Second, through all financial levers, mainly tax revenue, bonds, fund allocation and subsidies, it must correctly regulate and control the net income distribution of production enterprises, correctly handle the economic interest relationship between the state and production units, enable enterprise production and consumption to conform to the requirements of state plans, improve economic business accounting and economic results. It must also regulate revenue between the center and localities, various areas and various types of economic ownership and promote the proportional coordinated development of all areas and all types of economic ownership; regulate and strictly control the scope of capital construction investment, making it correspond to state financial and material resources; regulate and control the proportional relations between accumulation and consumption, productive and nonproductive accumulation, investment in agriculture and light and heavy industry and between all consumption funds; promote and ensure a rational national economic structure and realize good national economic circulation. Finally, through public financial distribution, it must reflect and restrict fully and comprehensively all aspects of national economic activity and promptly supply economic information to the state for macroeconomic policy and microeconomic enterprise invigoration.



ECONOMIC MANAGEMENT

BRIEFS

JIANGSU RURAL ENTERPRISES PROSPER--The situation for Jiangsu's rural and township enterprises to develop proportionately and healthily this year is excellent. After surmounting numerous difficulties, the total output value of Jiangsu's rural and township enterprises is expected to reach around 40 billion yuan, accounting for one-third of Jiangsu's total industrial and agricultural output value; besides, output value, tax delivery and profits will also increase at the same pace, of which the total output value of the rural and village-level industries is expected to exceed 25 billion yuan. This year, Jiangsu's rural and township enterprises have again made important contributions in supporting agriculture, invigorating the rural economy, increasing the state financial revenue and readjusting the rural production structures. The above figures were disclosed by Comrade Wang Minsheng [3769 2404 3932], director of the Rural and Township Enterprises Administrative Bureau, Jiangsu Province, in a speech at the provincial conference on rural and township enterprises newsletters publication convened on 12 November. [Text]  
[Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 27 Nov 85 p 1] 12662/6662

CSO: 4006/483

FINANCE AND BANKING

JIANGSU PERSONAL INSURANCE SUBSCRIPTIONS FLOURISHING

Nanjing XINHUA RIBAO in Chinese 15 Sep 85 p 1

[Article by Xu Xingming [6079 5281 6900]: "Jiangsu Personal Insurance Ranks First in China; More Than One Million People Participate in Personal Insurance"]

[Text] By the end of August, more than 1,074,000 people in Jiangsu Province have subscribed personal insurance paying a premium of more than 30 million yuan, thus ranking first in the country. Among other places, Changzhou City (including counties under its jurisdiction), with nearly 250,000 people participating in personal insurance, ranks first in the whole province.

Personal insurance is a kind of insurance which the state is developing on a priority basis. It covers old-age pension and medical insurance, group insurance for personal accidental injuries and simple personal insurance. Old-age pension and medical insurance have solved the realistic issues of getting support in old age and receiving medical treatment in illness for contract workers and temporary workers in rural enterprises and business units who are not entitled to the state labor-protection treatment. This is a new way to reform the labor employment system and stabilize the contingent of workers and staff members. The group insurance for personal accidental injuries will enable the injured person himself or his dependents to obtain reliable economic protection from the insurance company in the event that a worker or staff member of an enterprise or business unit falls victim to an unfortunate accident. Simple personal insurance is a type of savings insurance, the insurance company will pay back to the insured the principal plus interest in full upon maturity regardless of whether the insured is injured in an accident. Personal insurance which eases the mind of workers and staff members worrying about future uncertainties has played a positive role in arousing the workers' enthusiasm for production and raising the economic results of enterprises. As a result, it is welcomed profoundly by the insured. This type of insurance has now spread to the vast countryside throughout the province.

12662/12859  
CSO: 4006/75

FINANCE AND BANKING

REFORM OF CHINA'S FINANCIAL SYSTEM DISCUSSED

Beijing JINGJI RIBAO in Chinese 25 Sep 85 p 2

[Article by Ma Mingjia [7456 7686 1367]: "Reform of China's Financial System Promotes Economic Development; By Restructuring the Credit Management System and Expanding the Sphere of Financial Services, Various Types of Bank Deposits and Loans Registered 1.6-Fold and 1.3-Fold Increases, Respectively, in 5 Years"]

[Text] The reform of China's financial system and financial enterprises has made giant strides since the 3d Plenum of the 11th CPC Central Committee as the reform of the economic system progresses in depth gradually.

China has now established a system of financial institutions with the People's Bank of China as the leader, the four major specialized banks--the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China and the People's Construction Bank of China--as the main body and other financial institutions as the auxiliary. In the credit system, a credit management system with bank credit as the main body coexisting with other types of credit, such as commercial credit, consignment credit and people-to-people credit has been set up. In credit planning, the management system of "unified planning, funds classification, loaning for what one actually deposits and mutual collecting and circulating of funds" has been implemented. In interest-rate policy, attention has been directed to giving full play to the role of interest rate as a lever by raising the interest rate on savings deposits four times successively and readjusting the interest rate on loans twice. With regard to types of loans, the sphere of loan service has been expanded. All these reforms have laid a solid groundwork for restructuring the financial system.

The restructuring of the financial system since 1979 has given impetus to the development of financial work. Comparing the end of 1984 with the end of 1979, the amount of bank deposits and loans showed an increase by a wide margin. The various types of deposits rose from 134 billion yuan to 343.8 billion yuan, or an increase of 209.18 billion yuan, registering a 1.6-fold accumulative increase; savings deposits by urban and rural residents rose from 28.1 billion yuan to 121.4 billion yuan or an increase of 93.3 billion yuan showing a 3.3-fold accumulative increase. Various types of loans rose from 203.9 billion yuan to 474.6 billion yuan or an increase of 270.7 billion yuan registering a 1.3-fold accumulative increase, out of which fixed asset loans rose from 790 million yuan to 29.4 billion yuan, up by 28.61 billion yuan or a 36-fold increase. For 5 years, without receiving any added allocation of credit funds,

the banks by fully relying on their own strength have energetically organized deposits, expanded the source of credit funds, solved the needs of circulating funds and technological transformation by enterprises and promoted the development of the commodity economy, thereby amply demonstrating the tremendous effect of the reform of the financial system.

Some problems have also cropped up in the course of the reform of the financial system due to the lack of experience and the unsound means of macroeconomic control over finance. Excessive increase in credit occurred following the fourth quarter last year, and this year problems have again cropped up with investment in fixed assets infringing upon circulating funds and fundraising in society digging into bank deposits. For this reason, the People's Bank of China has asked various specialized banks and other financial institutions to vigorously organize deposits under the macroeconomic control of the state in finance, make efforts to recall loans due or overdue, strengthen loan management, improve the effectiveness of loans, and bring about microeconomic flexibility to ensure orderly and lively activity so as to smoothly advance the reform of the economic system.

12662/12859

CSO: 4006/75

## FINANCE AND BANKING

### CHEN MUHUA DISCUSSES CHINA'S FINANCIAL SITUATION

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 10, 4 Oct 85 pp 3-4

[Article: "Comrade Chen Muhua [7115 1970 5478] Discusses China's Financial Situation and Policy at Board of Directors Meeting of People's Bank"]

[Text] On 24 August, Comrade Chen Muhua, member of the State Council and president of the People's Bank of China and chairman of its Board of Directors, presided over the third meeting of the Board of Directors of the People's Bank. The meeting was mostly taken up with a discussion of the prevailing financial situation and the financial policy and measures which should be adopted for the last 4 months of the year.

It was agreed at the meeting that our financial situation was rather favorable during the first half of the year. The various banks and financial institutions were able to implement conscientiously the series of policy decisions of the State Council to strengthen macroeconomic control. A great deal of work was done in attracting deposits, in withdrawing currency from circulation, in reducing and recalling unreasonable loans and in controlling the rampant growth in consumer funds, the extension of loans to enterprises in villages and towns and loans for the acquisition of fixed assets. A favorable turn has been taken in bank deposits, loans and the withdrawal of currency from circulation. While strict control was exercised over the scale of credit loans and the amount of currency put into circulation, attention was also given to the need to make funds available for the purchase of subsidiary agricultural products.

It was pointed out at the meeting that, due to the inertia resulting from the loss of control over credit loans and the rather high rate of development in economic construction during the first 7 months of the year, complete control had not been exercised over the scale of credit loans. In particular, the decentralized utilization of credit loans had resulted in the application for bank credit loans by various quarters. Due to the lack of flexibility in the movement and adjustment of funds among the specialized banks and between the specialized banks and other financial institutions, the failure to settle accounts among the banks and the differences in the amount of remittances in time has resulted in manmade shortages in funds and intensified the contradictions occasioned by the lack of funds for economic construction. Certain localities, in seeking to sustain the inappropriate rate of development while laboring under the shortage of funds, have taken out their bank deposits to support capital construction projects. Other localities have raised funds

from the enterprises, made circulating fund loans from the banks or used circulating fund loans to invest in fixed assets, thus affecting adversely the implementation of the policy of the state to strengthen macroeconomic control.

It was unanimously agreed at the meeting that the overall policy for the next few months should be to continue to exercise strict control over the scale of credit loans and the amount of currency put into circulation. The plan setting the margin of difference and the amount of loans granted the various banks by the People's Bank must be strictly observed. A special report on the readjustment of the plan for the issuance of currency and the extension of credit loans for the year is to be submitted by the People's Bank to the State Council.

In the meantime, the following measures should be adopted:

1. Efforts should be made to attract deposits, to recall loans that have matured or that are overdue, to exploit financial potential, to encourage deposits above the quota and to heighten the enthusiasm of credit cooperatives to absorb deposits. The banks should pay credit cooperatives a reasonable allowance to make up for the difference in the interest rate for deposits they have put into the banks.
2. When credit loan funds are available, effort should be made to allocate funds in an equitable manner, to support the purchase of subsidiary agricultural products within the plan, foreign trade exports, the production of commodities that sell well in the domestic market and to increase the withdrawal of commodities.
3. Efforts should be made to strengthen the management of funds. The People's Bank in various localities are required to strengthen their control over the short-term funds of the specialized banks. The specialized banks are required to strengthen the control of funds within their own system. The remittance funds which the specialized banks in various localities are required to pay to their head offices must be paid in time and not be used as credit loan funds. The head offices must pay in time the full amount of the balance of remittance funds which should be paid to their subsidiaries throughout the nation. The banks must strengthen mutual financial accommodation among themselves and settle accounts in time.
4. The People's Bank should formulate policy measures to deal with the problem presented by the various types of economic and technical development companies and enterprises in the various localities which seek to raise funds by withdrawing their bank deposits and by making applications for operational fund loans. A special report is to be submitted to the State Council and the recommendations are to be adopted upon approval.
5. Trust and investment companies should continue to be overhauled. The gap created by the flow of credit loan funds of the banks into the construction of fixed assets has yet to be plugged. It was reiterated at the meeting that trust operations must continue to be overhauled. In the future, trust and investment

institutions are to be permitted to be established only in large and medium-sized cities which are truly in need of economic development. The scope of trust operations is to be limited to commissions, agency, renting and leasing, provision of service as guarantors, consultation and other operations approved by the People's Bank. All funds are to be brought into the comprehensive credit loan plan of the local People's Bank. Loans used for capital construction or technical renovation (including trust operations, renting and leasing) must also be within the scope of the plan for fixed assets officially approved by the state. The various specialized banks are not for the time being to be permitted to engage in new credit loan and investment operations during the year. Trust loans which have matured and investment loans must be recalled in time and not continue to be used or loaned out laterally. An end must be put immediately to the practice of transferring bank funds to trust and investment companies. The full amount of funds which have been transferred must revert to the banks.

6. The work of auditing and checking loan funds must be strengthened and an end must be put to the unscrupulous practice of "taking advantage of loans for making private gains."

7. Effort should be made to speed up the reform of the method for settling bank accounts, to increase the volume of account settlements, to make things convenient for the masses, to reduce the use of cash and to offer better services to the enterprises and the various specialized households.

The meeting was attended by Liu Hongru [0491 7703 0320], vice chairman of the Board of Directors of the People's Bank; Yin Jieyan [3009 0094 3508], secretary general; Qiu Qing [6726 2532], Zhu Tianshun [2612 3944 7311], Shang Ming [1424 2494], Jin Deqin [6855 1795 3830], Zhou Daojiong [0719 6670 3518], Qin Daofu [4440 6670 1133], Tang Gengyao [0781 6342 1031], Che Peiqin [6508 1014 2953], members of the Board of Directors; Zhang Xiao [1728 5135], president of the Industrial and Commercial Bank; Ma Yongwei [7456 3057 0251], president of the Agricultural Bank; Wang Deyan [3769 1795 5888], president of the Bank of China; and representatives of the concerned departments and commissions.

9621/12274

CSO: 4006/245

## FINANCE AND BANKING

### BANKER CALLS FOR EXPANSION OF CREDIT RESOURCES

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 10, 4 Oct 85 pp 6-8

[Article by Zhang Xiao [1728 5135], president of Industrial and Commercial Bank of China: "The Need To Increase Savings Deposits and To Expand Credit Resources"]

[Text] During the first half of the year, the banks and offices of the Industrial and Commercial Bank at various levels have done a great deal of work in conscientiously implementing the instructions of the State Council regarding the need to exercise strict control over the scope of credit loans and the issuance of currency. First, savings in cities and towns have shown an increase; second, a considerable amount of currency has been withdrawn from circulation; third, in regard to the major policy decision to strengthen macroeconomic financial control, everybody concerned has come to appreciate its significance, carried it out in a resolute manner, checked over and over again improper loans, cleared up and recalled the overdue interest on last year's loans, and adopted measures to control improper lending; fourth, in conformance with the new measures for the control of credit funds, the banks and offices of the Industrial and Commercial Bank have tentatively established a system for the lateral movement of funds, facilitated the transfer of funds and basically satisfied the normal needs for production and circulation during the first half of the year.

However, due to the excessive speed in production and construction and the insufficient amount of preparation, there have emerged the following problems that cannot be overlooked: (1) A reduction in the amount of deposits made by the enterprises and in financial resources. Such a large amount of funds in society has been diverted to capital construction that there is a shortage of funds for production and circulation. (2) The rapid increase in the extension of loans has resulted in a shortage of credit funds. To ensure the successful reform of the economic system in the cities and continued economic stability and coordinated development, the Industrial and Commercial Bank must do a creditable piece of work in the latter part of the year in the following areas: First, it must work conscientiously to attract the savings and deposits of the enterprises and resort to every means to accumulate credit funds. Whether it can successfully accomplish its mission for the year depends on how well this work is done. Second, strict control must be exercised over the release of loan funds and the administration of circulating funds. Emphasis is to be put on the vigorous development of the financial and material potentials of the enterprises. Third, a further step must be taken to strengthen the flexible



deployment of credit funds and to increase the effective utilization of credit funds.

### Vigorous Absorption of Savings Deposits

The Industrial and Commercial Bank has done well in attracting savings deposits during the year. Up to the end of June, the balance in savings deposits came to 79,162,000,000 yuan, showing an increase of 12,072,000,000 yuan over the amount at the end of the previous year and representing 75.92 percent of the added quota set for the current year. The increase in savings deposits has a positive and vital effect on replenishing the credit funds of the bank, the withdrawal of currency from circulation, stabilization of the market and the development of the national economy. The major problems encountered in the work of savings and deposits during the first half of the year include a slower rate of increase in savings deposits, a slower rate of increase in savings deposits compared to the increase in the amount of cash payment in the form of wages, with the result that there is an increase in the amount of cash held by the masses, a slower rate of increase in fixed savings deposits compared to current savings deposits so that there is a drop in fixed savings deposits compared to current savings deposits so that there is a drop in fixed savings deposits and a rise in current savings deposits. At the same time, the drop in deposits made by the enterprises has, to a certain extent, canceled out the increase in savings deposits.

Under present circumstances, the vigorous absorption of savings deposits has become the key to the growth of financial resources to meet the needs of production and the normal circulation of funds. All those working in the bank from top to bottom must mobilize themselves on an emergency basis, direct major effort toward the absorption of savings deposits and use every means to accumulate more credit funds to ensure the availability of funds for the implementation of the credit loan plan for the year. To that end, the head office of the bank has proposed that savings deposits amounting to 13 billion yuan is to be absorbed during the latter half of the year and 25 billion yuan for the entire year, of 157 percent of the original plan for increasing the amount of savings deposits. In setting this target, the head office has given consideration to the following: According to the pattern prevailing in recent years, the amount of savings deposits in the latter part of the year is generally a little higher than that during the first half of the year; a larger amount of savings deposits is likely to be absorbed due to such factors as the increased payment of wages during the latter half of the year; the increase in the interest rate for savings deposits since August is also likely to promote savings. In order to achieve the savings deposit quota for the latter part of the year, we must direct our attention to the following:

1. Internal potential must be vigorously developed. In regard to savings deposit network outlets which have already been established but which have yet to open for business, the necessary facilities and personnel must be installed as soon as possible and the outlets are to be open for business within a fixed period of time; the savings deposit network outlets which have been forced out and taken over must be promptly returned; the institutions of the bank that deal with the public must install special savings sections and begin savings

operations in the near future; if warranted by the amount of operations, an adequate work force must be organized and more windows opened to attract more deposits; there must be a relative degree of stability in the makeup of the savings work force and a certain number of core operators must be maintained; depending on the manpower available and the volume of work, business hours should be extended during peak periods for the making of deposits and such methods as introducing work shifts should be adopted; procedures should be simplified without sacrificing the quality of service; the award of prizes for various types of deposits should be adopted in line with the policy decisions of the state; the creation of conditions for increasing the number of network deposit outlets; the more extensive use of special machines and tools to increase work efficiency, etc. In short, no stone is to be left unturned to eliminate the difficulties encountered by the masses in making deposits and withdrawals.

2. Savings agency operations must be further developed. The development of savings agencies is a good way to develop savings operations in that it yields rapid results while requiring little input. Savings agency personnel are a major force for attracting savings deposits. The various banks must take immediate action to develop savings agency operations, especially those of exclusive agencies, offices, organizations, enterprises, the armed forces and schools. Field personnel in savings should be assigned on a regular basis to inspect, supervise and provide guidance in savings agency operations. Such agency operations as the payment of wages and the collection of various fees on behalf of the various departments should be vigorously developed. Those credit cooperatives in the cities which have passed muster after having been overhauled may also engage in savings agency operations.

3. Efforts must be made to upgrade the quality of service. Savings personnel must appreciate the need to give top consideration to depositors and to improve the quality of service. They must show enthusiasm and courtesy in dealing with their customers, bear in mind at all times the interests of depositors, try to understand the psychology and the needs of depositors, heighten their sense of responsibility, observe strict discipline in their work, abide strictly by the regulations of the system and put an end to the practice of chatting with their customers while on business. They must improve the working environment and engage in various forms of propaganda work in a lively and vivid manner so that the importance of savings may come to be appreciated by the people.

4. Competition should be held to motivate the enthusiasm for the vast number of people engaged in savings operations. Competition should be held to select the best in such areas as "enforcement of policy, fulfillment of the quota, courtesy to customers and quality of work." Progressive units and individuals should be selected and citations and awards given to the winners. Awards should be given those who have overfulfilled their quotas this year. Those in leadership positions in the banks at various levels must strengthen their leadership, put themselves at the forefront of savings operations, show concern over the livelihood and hardships of those engaged in savings operations, resolve in time the problems relating to savings operations and fully motivate the enthusiasm of those engaged in savings operations.

While vigorous efforts are made to absorb savings deposits, we must also regard it a matter of importance to reverse the downward trend in deposits made by

enterprises. Deposits made by enterprises constitute a large part of the various types of deposits and are an important source of bank credit funds. In keeping with the policy of the state, the various banks must take immediate action in adopting the necessary measures to reverse the downward trend in the amount of deposits made by enterprises. The enterprises and the concerned departments must be made to understand clearly that in line with the principle of "engaging in production first and capital construction later," the funds belonging to enterprises and banks must be used to meet the need for circulating funds and technical reforms and to ensure the normal process of production and circulation. Banks must render satisfactory service to the various units of enterprises and eliminate "the difficulty of opening bank accounts." They must pay special attention to big depositors, analyze changes in the pattern of deposits made by each and every depositor and resolve whatever problem that may arise. They must further strengthen their control over ready cash and withdraw currency from circulation. They must vigorously enforce the relevant stipulations made by the People's Bank concerning the division of labor in operations among specialized banks, strengthen control over the special fund deposits of enterprises and avoid the diversion of circulating funds and funds for technical reforms for enlarging the scope of capital construction.

Control must be strengthened over the raising of funds in society. The Industrial and Commercial Bank should take the initiative in engaging in activities approved by the state and in accordance with its regulations for raising funds in society. The credit departments should serve as agents for issuing stocks and bonds and open new avenues for the accumulation of funds. Those departments which take it upon themselves to issue stocks and bonds without authorization are not to be permitted to serve as agents and are to be reported to the People's Bank and the concerned departments. A stop must be put to the raising of funds by withdrawing funds at random or by misappropriating the loan funds of the banks. We must be on guard against those who use the raising of funds as a pretext for disrupting the financial market and engaging in illegal and fraudulent activities.

#### Effective Control and Flexible Utilization of Circulating Fund Loans

At a time when enterprises are short of circulating funds, the banks must use every means to make available to the enterprises the necessary production and circulating funds during the busy season. While efforts are made to attract deposits, they must also help enterprises to exploit effectively their material and financial potential, to exercise effective control over their loan funds, and to utilize such funds in a flexible manner. We must base our guiding ideology on two principles: first, we must exercise strict control over the scope of credit loans, exercise strict control when strict control is called for and refrain from supplying funds for production that is progressing at an excessive rate and for making funds available at will and above the quota; second, we must give support to what merits support, invigorate what needs to be invigorated and avoid adopting the simple method of refusing the supply of funds just because funds are in short supply. Funds must be made available for the purchasing of agricultural sideline products, the key production projects of the state, the increased production of commodities that sell well and that help to withdraw large amounts of currency from circulation, projects for the development of energy and the transportation enterprises. It is obvious that a

large gap exists between the supply and demand of funds. However, since the funds of enterprises have great potential, the control of circulating funds should be focused on exploiting the material and financial potential of enterprises. We must mobilize our resources to exploit this potential and to check up on enterprises on a regular basis. We must have a good understanding of enterprise potential and a clear idea of how to implement plans and measures for tapping their potential within a fixed period of time.

We must urge enterprises to replenish their circulating funds according to stipulations. We must not expect banks to keep enterprises supplied with circulating funds. Additional circulating fund loans are not to be granted to those enterprises which replenish their own funds in violation of stipulations, which depend on loans to continue production and which make use of funds to engage in enlarged capital construction projects.

#### Flexible Deployment of Credit Funds

Following the adoption of new measures for the control of credit funds and the settling of accounts this year, the banks and offices at various levels have strengthened the rectification, forecast and transfer of credit funds. The establishment of a crisscrossing network for the flexible transfer of funds so that no credit funds are allowed to lie idle and that they are utilized to the best advantage is a basic demand in the work of banking as well as one of the major yardsticks for evaluating the standard of banking operations. It is especially important to direct our efforts toward this work in order to prevent the emergence of a situation marked by a shortage of funds in some areas and a surplus of idle funds in others. Those in leadership positions in the banks at various levels must learn as soon as possible how to master the methods for the transfer of funds, continue to sum up their experiences to improve work relating to the transfer of funds and eliminate the abnormal phenomenon presented by some banks having money but being afraid to use it and others which spend money they do not have. Judging from the situation regarding the transfer of credit funds during the first half of the year, special attention should be directed to the following during the latter half of the year:

1. Funds should be centralized to a suitable extent. On the basis of our investigation and research, we must proceed from actual conditions in setting the highest and lowest limits for the deposits of the People's Bank and its reserves of operational funds and in centralizing to a suitable extent certain credit funds so that they may be transferred in an effective and flexible manner; the branches and subbranches in the large and medium-sized cities which are in a position to do so may consider opening centralized deposit accounts in the People's Bank so as to prevent the decentralization of idle funds.
2. The system for turning over intrabank remittance funds must be strictly enforced. Intrabank remittance funds are funds temporarily utilized or paid out by banks and offices at the basic level in the process of handling the operations of associated banks. Banks and offices at the basic level must settle accounts daily with banks at a higher level and complete the procedure in time for the actual payment and transfer of funds. They must on no account use any pretext to delay payment or make use of remittance funds which should be paid to associated banks for the extension of loans. In this regard, the

various banks must proceed from the interest of the overall situation. The use of remittance funds which should be turned over to the head office would adversely affect the transfer of these funds by the head office to the other banks. The use of remittance funds belonging to associated banks for the extension of loans above the plan would break through the scope of credit loans and make it difficult for the head office to exercise macroeconomic control. It is for this reason that the enforcement of the system of turning over intrabank remittance funds should be considered a rule to be strictly observed.

3. The plan handed down to the various branch banks by the head office for the decrease of credit loan difference and increase in the deposit difference must be fulfilled and funds must be turned over to the head office in time.

9621/12274

CSO: 4006/245

## FINANCE AND BANKING

### SAVINGS DEPOSITS IN CHINA FACE SERIOUS CHALLENGES

Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese  
No 5, 18 Oct 85 pp 15-17

[Article by Zhu Delin [2612 1795 2651]: "Challenges Now Facing Savings Deposits and Countermeasures"]

[Text] China's savings deposit business is burdened with arduous tasks. It has to raise hundreds of million yuan in funds to realize the four modernizations and it also has to regulate the excess amount of currency in circulation. However, it is now facing numerous challenges in the increasingly complicated economic life. For this reason, we must study the matter and adopt positive countermeasures.

#### Confronting Challenges

The development of the commodity economy has ushered in a new situation in the movement of funds in society, Bank savings have encountered unprecedented difficulties in the increasingly complicated economic life, they are also facing numerous challenges.

#### 1. Rapid Formation of the Financial Market

Prior to the restructuring of the economic system, there was no financial market in our country, what existed was only a fund distribution system manipulated by the financial banks. Funds at that time did not become a special commodity nor could they as a result reflect the "price" of the special use value of funds and the supply-demand relationship--interest (the single interest rate which prevailed could not reflect the above-mentioned demands), correspondingly, buyers and sellers of funds were also nonexistent. The banks monopolized all funds outside financial revenues, all temporarily idle funds of various enterprises and business units became bank deposits. Except for a small amount of cash stashed away at the bottoms of chests, most of the idle funds belonging to the masses of residents flowed into the bank as savings deposits.

The financial market quickly took shape and kept on developing following the reform of the economic system. At the moment it is mainly a funding market, that is, a small-scale currency market, and its form of transactions

includes the issuance of share certificates, negotiable securities for fundraising and corporation bonds, fundraising pledges in society and fundraising in the countryside through labor. The rapid formation of the financial market has opened a new channel to absorb funds and changed the situation of having idle funds end up in the banks like all rivers flowing to the immense sea.

## 2. The Multiple Way of Handling Savings Deposits

Savings deposits have always been exclusively handled by the banks and credit cooperatives without any exception. With the reform of the financial system, collective credit institutions have appeared in cities and small old-style Chinese private banks have also emerged in individual areas in the countryside. As a result, savings deposits have developed from a unitary operation into diversified state, collective and individual undertakings.

## 3. The Impact of Price Fluctuation

With the reform of the pricing system and compounded by certain illegal price hikes that actually prevailed, the price of consumers goods, especially farm produce and sideline products, has been on an upward swing. On the other hand, the readjustment of the interest rate for savings deposits, both in time and magnitude, has often remained in a stagnant state. Therefore, not only is it actually very hard for saving deposits to yield interest but it is also difficult to preserve value. We have to say this is a menace to savings deposits.

## 4. The Rise of People-to-People Credit

The development of the rural commodity economy has daily increased the needs for funds, because the credit cooperatives' fund resources and allocating capacity can no longer satisfy the needs, people-to-people credit has emerged as the times require. The people-to-people credit is extended in many flexible forms and the interest rate is moderate. Its development has absorbed a considerable amount of idle funds in the countryside and separated itself from the bank's middleman role.

## 5. The Tendency of Turning Savings into Material Objects

The broad masses of people are at present commonly obsessed by the fear of rising prices, consequently many people have rushed to buy goods and materials, thus spending ahead of time money which was originally intended for buying things several years later. Some units and individuals purchased large quantities of gold ornaments. Sales departments in Shanghai handling gold ornaments reported that some customers purchased gold ornaments valued at 3,000 to 4,000 yuan at one time. Turning savings deposits into material objects has reduced the portion of savings resources.

## 6. The Rivalry over High Interest Rates

The rivalry over high interest rates comes from two areas: a) dividend and bonus. The dividend is actually much higher than the interest rate for

savings deposits in the bank since it is generally stipulated that it should not be lower than the interest rate payable to time deposits of the same schedule, besides, the payment of dividend is guaranteed like "ensuring stable yields despite drought or waterlogging" because the interest is not paid according to the principal in the share certificate and the dividend distributed in the following year. b) in usurious people-to-people borrowing and lending on a private basis, the interest rate is several times higher than that of the state bank, at times more than 20 times higher.

#### 7. Complications of the Savings Deposit Structure

Although savings deposits mainly come under consumption funds to begin with, their structure has now changed to some extent. Peasants' savings deposits have become a combination of accumulation funds and consumption funds; the savings deposits of individual industrial and commercial accounts are principally production and operational funds; some enterprises and business units have deposited welfare funds, bonus funds, profits retained for tax payment and other public funds into the banks under personal names in violation of rules governing cash control.

#### 8. High Demands Imposed by Depositors on Services

For a long time the savings business in our country had been a very simple type of operation of receiving and paying involving mainly depositing, withdrawal and calculation of interest. Now that their economic life has changed, the depositors are imposing higher demands on banking services. Some savings account holders hope that banks will help settle a portion of their monetary activities in production and business operations by means of transfer accounts; a few savings account holders having large deposits and whose level of consumption is comparatively high have asked for the use of checks and credit cards to make payments for the sake of simplicity, convenience and safety.

#### Principal Contradictions

The multiple ways of shifting savings funds has played a positive role in developing the commodity economy, it has also brought forth numerous difficult problems in the macroscopic control of the national economy at the same time. The following are existing contradictions requiring prompt solution:

##### 1. The Contradiction Between Dispersed Savings and Macroeconomic Control

When savings are exclusively handled by the banking system, the savings funds become a part of the source of the credit funds which are incorporated into the credit and proceed to achieve a unified balance of financial revenue, foreign exchange and goods and materials. At present, savings funds are divided into two parts, one part is controlled by the state banking system, which may be called intrabank savings funds, the other part represents the savings funds in society existing in various shapes and forms,



which may be called savings funds outside of banks. While the former is still within the confine of macroeconomic control, the latter, which is beyond the reach of macroeconomical control, becomes involved in market activities. With the further opening of the financial market and the further expansion in the scope of financial activities, the amount of the latter grows with each passing day. The problem that has cropped up in the use of this portion of funds is that the funds flow freely and laterally to a point that the People's Bank cannot control the credit scale and the specialized banks have found it hard to strengthen credit management. For example, where does this portion of funds come from and where does it go? Is the distribution reasonable? Is it linked with the movement of goods and materials? When used in capital construction, is it to be included in the fixed-assets investment plan? Since neither the finance department nor the bank can exercise control, it drifts away beyond the reach of macroeconomic control.

## 2. The Contradiction Between Low Interest Rates for Bank Savings and High Interest Rates for Savings in Society

One of the motivations for saving is to gain interest, especially if the amount is comparatively large. Bank saving should be the fundraiser for the state and play the role of main channel in absorbing savings, but its interest rate is generally lower than that of savings in society, otherwise known as savings outside the bank, such as share certificates, bonds, funds raised in society and people-to-people lending and borrowing. This is a contradiction.

## 3. The Contradiction Between Price Increases and Value Preservation

Another motivation to save is value preservation which is more meaningful to those whose savings are small. If commodity prices keep on rising while the interest rate remains low, the interest will not be able to compensate for the loss from the currency depreciation brought about by rising prices. Such being the case, saving will have no economic meaning to those holding currency. The area covering price readjustment at present is wide and the general commodity price level is fluctuating upward. We must say that this is in contradiction with saving, whose function is to preserve value.

## 4. The Contradiction Between a Single-Function Savings Operation and High Demand For Services

As mentioned above, some savings account holders hope that savings accounts can also be used for settling accounts to serve their production and business operations. Since such a service has still not been provided by the banks, considerable amounts of deposits are lost because some individual account holders who are keeping tens of thousands yuan in cash in expectation of business needs will not put them into savings deposits.

## Positive Countermeasures

With savings confronting multitudinous challenges and contradictions, the task with top priority is to seriously study countermeasures. Strategically there are two choices in countermeasures: One is of a defensive nature and the other is of a progressive nature. The former is an unwise and negative move, the latter is a better and more positive plan. Defensive countermeasures may take some of the following steps: banning people-to-people credit, restricting fundraising in society, abolishing the various types of trust and investment corporations outside the banking system, and channel all credit dealings once again into the banks and classify all of them as bank savings. The direct effect of these measures will be that the amount of savings in the banks will increase and will be included as the source of credit funds for the banks. This is desirable if measured in terms of banking results. However, it is incompatible with present-day economic life judging from the macroeconomic point of view. This countermeasure, therefore, should not be chosen. Only be a progressive countermeasure to cope with the need of an increasingly prosperous commodity economy can be worthy to be chosen.

In order to draw up a series of positive countermeasures, a number of positive saving concepts must be fostered. These concepts include:

### 1. The Concept of Saving in a Big Way

The saving concept originally referred to the credit activities involving bank deposits that took form from the idle money people possessed; by the amount of savings, it referred to the amount of deposits made by the people; the savings operation includes depositing, withdrawal and calculation of interest relating thereto; the effectiveness of savings work is mainly symbolized by the amount of savings deposit. The saving concept should be updated now. All activities concerning the selection of financial assets having something to do with the idle money of people can be called savings, including money stashed away at the bottom of the chests, material objects purchased for the sake of value preservation, bank deposits, investment in stocks and bonds and people-to-people lending and borrowing. The volume of savings in the whole society should include the total amount of currency in the hands of people, regardless of the forms of assets they chose. The savings operation should be expanded appropriately to include services to bank savings and other services in the form of consultation, guidance, supervision and participation. The effectiveness of savings work is measured by the amount of bank savings and also the sum total of the economic results in society achieved by the banks in the service of other savings.

### 2. The Concept of Multiple Savings

Raising the saving rate by every possible means and drawing all the idle money from the people into banks has been the goal pursued in savings work for a long time. This expected goal is reflected in savings under a highly centralized economic modality. The outcome is an extremely high saving rate.

However, because the funds are improperly used, the result of utilization of savings deposits is extremely poor, as are the savings results in actuality. Multiple saving comes into being in conforming to the development of the commodity economy. The dispersion of funds makes distribution more flexible and is conforming to the principle of diversifying risks, it can also avert economic loss resulting from errors in highly centralized investment in enormous sums. Generally speaking, therefore, so long as planned guidance remains effective and the vicious cycle of duplication in construction and unrealistic production is eliminated, the effectiveness of utilizing savings deposits can be raised.

### 3. The Concept of Energetic Intervention

Multiple saving came into being in conforming to the development of a commodity economy; its main current is energetic and rational. However, numerous problems also exist and some of them are quite serious. The banks cannot ignore them and let things drift along but should intervene. The purpose of intervention, of course, is not to obstruct or stifle saving but to guide and make it respond to macroeconomic needs. The manner of intervention should be a combination of economic, legal and administrative means.

### 4. The Concept of Competition

The dispersed and multiple form of saving makes competition inevitable. Such being the case, the banks should voluntarily participate in competition. Since the banks have the absolute advantage over the handling of savings, their objectives and means of competition should all be correct. While the objectives are to elevate the level of operation and management of various establishments outside the banks and seeking still greater results, correspondingly, the means must also be equal, rational and lawful and not to the contrary.

### 5. The Concept of Service with Initiative

The bank saving service to begin with has been rather passive in nature amounting to "standing by a stump waiting for more hares to come" or just waiting for money to show up at the doors. The certain needs of the saving account holders have still not been satisfied to date. In this respect, we should learn from the Japanese banking institutions by expanding the scope of services, taking the initiative to satisfy the needs of savings account holders and anticipate them.

Based on the foregoing guiding ideology, certain countermeasures below may be used as reference:

First, participating in fundraising in society and giving play to the guiding role. This is a positive measure for solving the contradiction between the dispersion of savings and the use of funds in macroeconomic control. The savings funds outside the banks represent the portion

transferred from bank savings deposits. In form, it seems as if they have nothing to do with the banks, but they are, after all, a part of the savings in society (referring to the sum total of bank savings and savings outside the banks). The banks as important institutions in exercising macroeconomic regulation over the funds should undoubtedly give play to their guiding functions in using the savings funds in society. This part of their work represents a reform and an attempt to shift saving from a receiving and paying operation to an operational and management operation; it is also the manifestation of the concept of saving in a big way in concrete work. It is of penetrating significance. The following work may be carried out while participating in fundraising in society:

--Strengthening financial administrative management and developing specific professional work in managing the financial market. Although provincial and municipal branches of the People's Bank have set up departments of financial administration at present, they cannot cope with the current needs of fund raising in society due to limited manpower. Some fundraising units reflected that while they had hoped for guidance and supervision from the banks very eagerly, the banks do not have sufficient manpower to participate.

--Developing trust service and setting up consigned loan service, consigned investment service, and acting as an agent in issuing fundraising negotiable securities and share certificates so as to draw in the savings funds outside the banks and place them under the guidance and supervision of the banks once again.

--Direct "investment," control of shares. The banks may play a manipulating and controlling role similar to that of a "holding company" broad by extending loans to fundraising enterprises or by purchasing their shares.

Second, further reforming the interest-rate system. Although there have been numerous improvements in the interest-rate system in our country in recent years, they are still incompatible with our economic development and thus more reforms are needed. The targets of the interest-rate policy in recent years should be: stabilizing bank savings, supporting and developing collective saving, guiding fundraising in society and restricting and putting an end to usurious activities.

To stabilize bank savings, the interest rate must be: 1) adequately raised; and 2) expeditiously and flexibly readjusted. In raising the interest rate at present, it must be targeted toward value preservation and compensate for the loss due to rising prices and currency depreciation, on the one hand, and must also benefit those who saved money. To this end, the extend of the interest-rate hike should include the two factors mentioned above. If commodity prices are readjusted on a one-time basis, readjustment of interest rate should be kept correspondingly stable. If the upward swing tends to fluctuate constantly, then the interest rate should be readjusted regularly so as to keep pace.

Supporting and developing collective savings. A phenomenon has emerged in the rural credit cooperatives as more deposits are taken in, the loss grows bigger. This is due to the stipulation of the Agricultural Bank of China that various credit cooperatives must transfer 30 percent of various types of deposits they have absorbed and deposit them in the banks as reserve funds earning 3.9 percent in interest while the average interest rate for the various types of deposits absorbed by the credit cooperative is 5.9 percent. This situation should be changed, the interest rate payable to deposits transferred to the Agricultural Bank must be higher than that paid to deposits absorbed by the credit cooperatives so as to encourage them to take in more savings deposits.

Guiding fundraising in society, principally the reasonable level of dividends and bonuses. The dividend and bonus rate should be linked with the interest rates for individual savings deposits and enterprise deposits. While the bank interest rate is under the macroeconomic control of the state, dividends and bonuses should not be subject to any restrictions. Of course, since share certificates have to assume a certain risk, the profit gained from the subscribed share certificates should be higher than the interest paid to deposits. However, without restrictions, it is bound to excessively reduce bank deposits and weaken the bank's ability in regulating economic funds. It is suggested that the rate of earnings from dividend plus bonus should be limited to 15 percent of the average fund profit rate.

Restricting and putting an end to usurious credit. As mentioned above, usurious activities have surfaced in people-to-people credit at present, with interest rates more than 20 times higher than that of the state banks involved in lending or borrowing. This harsh exploiting act is impermissible under socialism. The banks should set up special organizations to exercise control and stipulate the range of interest rates. For example, the 18 percent limit, that is, 200 percent of the maximum interest rate of credit cooperatives, suggested by some people may be used as reference. The lender and borrower may consult each other within the scope of the interest rate.

Third, developing collective savings and experimenting with individual savings. The amount of rural savings has increased at a rate of more than 40 percent in recent years, that is an area which has the best future for development in the savings business in our country. The banks should guide the development of rural credit cooperatives in a planned way and raise their service level. The collective credit cooperatives in the cities should also be developed in a planned way. Can individual savings be tried out in urban and rural areas at the same time? Several services may be tried out in advance, such as absorbing savings deposits from among the people, extending loans in the nature of helping livelihood, providing management service for settling accounts involving funds raised in huge sums and playing the role of middleman in people-to-people credit.

Fourth, expanding savings service. Above all, we should extend services to handle savings for individual households and specialized households in

receiving and paying, and in transferring and settling accounts. Since production and operational funds account for a large percentage in this portion of savings deposits, whether or not the service for settling accounts can be provided will have a direct impact on cash circulation. There are 24 million rural specialized households throughout the country, calculated on the basis of 500 yuan in cash in the hands of each household, the amount will come to 12 billion yuan. If such cash can be turned into bank deposits, it will increase funds by hundreds of millions yuan throughout the country. Second, we should increase the types of savings, such as by expanding special accounts combining deposits and loans or nondirectional savings and time savings with bonus and restoring agency savings by proxy. At the same time we should experiment with the service of acting as a wagepaying agent.

12662/12624

CSO: 4006/424

FINANCE AND BANKING

PROBLEM OF MERCHANDISE WITH VARIABLE PRICES DISCUSSED

Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 3,  
18 Jun 85 pp 25-26

[Article by Deng Suiyu [6772 4840 1342]: "How Should We View 'Merchandise with Variable Prices' on the Market?"]

[Text] Recently, there has been a remark that "having variable prices for the same commodity on the market really turns things upside down." Another comment is that "the consumers are the ones who suffer from these price hikes." However, some people hold a different view. They maintain that "having variable prices for the same commodity on the market is not a manifestation of confusion or price hike, but of flexibility." Viewpoints on this matter are diametrically opposed, which is not unusual. The key lies in the necessity for us to seek truth from facts, recognize the essence through looking at the phenomenon and draw a clear line of demarcation between right and wrong instead of believing in something lightly. How indeed should we regard the "variable prices for the same commodity on the market"? In fact, the appearance of "variable prices for the same commodity" on the market is a common manifestation of the law of value, and is a good thing which will revitalize the economy, improve productivity, develop production, satisfy needs and improve results. "Variable prices for the same commodity" will persist for a definite period of time in the course of development, but it will gradually disappear with the development of production and reform of irrational price systems.

Here we shall first of all analyze the causes for the appearance of "variable prices for the same commodity" on the market! We can consider the following aspects:

First, from the standpoint of the changes which have taken place in the channel of circulation: In the past, a commodity was handled by the first class stations, second class stations and third class wholesale and retail shops which distributed commodities and organized commodity circulation according to administrative divisions. This was a closed form of distribution involving many links and one single channel. With the formation and development of an open-style new system of circulation involving diverse economic forms, multiple channels of circulation, diverse business modes and few links, we can replenish our stock on one commodity from many sources and

replenish our stock with superior and profitable commodities. We can also replenish our stock through direct order from the factory. Because we replenish our stock through different locations and units, we will encounter different prices and expenses in replenishing our stock. At the same time, the industrial sector can sell some of its own products as well. Under such a situation, different retail shops will inevitably present different retail prices for the same commodity. This condition will constitute an increasingly important role in the further development of the new system of circulation.

Second, in terms of reform of the price management system, the commercial enterprises have for a long time had no power over price management. The various commodity prices were fixed by or examined and approved by the commercial administrative departments in charge. Sometimes the prices were fixed for life. To meet the needs of the large-scale development of a commodity economy, strengthen enterprise vitality, reduce the scope of unified price fixing and expand floating prices and free prices to a certain extent, the enterprises presently have the power to fix their own prices under the terms permitted by state policies. For instance, in Hubei Province, the commodities with prices directly controlled by the commercial administrative departments have been reduced from 166 kinds in the past to 53 kinds. Those small commodities with low output value, diverse specifications, fast updating and great changes in demand have been opened up for the enterprises to set their own prices or set negotiated prices through negotiations between the industrial and commercial parties. The gross amount of sales of these small commodities constitutes only about 7 percent--a miniscule percentage--of the gross sales of state-run industrial products. Within the variety and range specified by the state, the enterprises have implemented floating prices as well as price differences based on design, color and quality. Different prices charged by different retailers for the same commodity will definitely result from differences in the quantity of the commodities in stock and the speed of sales of the various enterprises, and the differences in the scope of fluctuation and the handling of individual fixing of prices, all of which follow from the reform of the price management system. This is conducive to strengthening enterprise vitality, revitalizing the economy, and encouraging the various enterprises to improve results, do business in a flexible manner, and flexibly adapt to complex and ever-changing societal needs.

Third, in light of the readjustment of the policy involving the procurement and sale of agricultural products, in recent years the state has adopted a series of measures to relax our policies and revitalize our economy. We have narrowed the scope of centralized and assigned procurement for farm products and expanded the scope of negotiated procurement and sales. Fair trade markets have developed and expanded day after day and the peasants have entered the realm of circulation. For grain, cotton, and edible oils, the state has implemented procurement based on the ratio between parity price and negotiated price (30:70 for grain, 40:60 for edible oils, 60:40 for cotton, 20:80 for north China), and so forth. Under this new situation, the appearance of "variable prices for the same commodity" in a market is a matter of course. At the same time, this contributes to clearing circulation channels, expanding commodity circulation, developing commodity production, satisfying society's needs, offering conveniences for everyday living, enabling the urban and rural economy to prosper, and revitalizing the



socialist market. "Variable prices for the same commodity" will also result from the gradual reduction of directive planning and expansion of guidance planning and market regulation.

Fourth, in regard to competition, under the terms of a commodity economy, competition is an objective law independent of men's will. With the development of commodity production, materials become increasingly abundant, and the seller's market becomes largely a buyer's market. Competition among businessmen is extremely acute. In light of the current situation, the primary competition is one in which the seller tries to win over the buyer. In addition to providing superior products and fine-quality service, he also attempts to win over new customers by lowering prices and reducing profits. "Variable prices for the same commodity" results naturally from this. Further investigation shows that this requires retail enterprises to be flexible, meeting society's complex and ever-changing societal needs, pursuing smaller profit but more sales and in turn greater profit through more sales, exercising the role of funds to improve results. From the consumer's point of view, this type of competition does not increase one's burden but actually benefits the purchaser.

Fifth, in view of the situation of the existing system of planned management, we should implement planned prices for such important state-handled products as steel, coal and cement, which fall within the scope of directive planning. For a long time, due to our ignorance of the role of the law of value and market forces, we have failed to enable the prices of these categories of products to accurately reflect value or the relationship between supply and demand. Fixed prices are too low and demand does not accord with supply. However, a rather confusing state has existed in the present price system which is difficult to resolve momentarily. Thus, we have permitted this category of enterprises to float prices for certain commodities within a prescribed margin after fulfillment of the state plan. Thus, the appearance of "variable prices for the same commodity" is natural here as well. Because it occurs when the law of value is suppressed, establishment of a planned system that consciously uses the law of value, plus the reform of the irrational price system, will gradually bring about its demise.

Sixth, inasmuch as commodity value is determined by the necessary labor in society, the overall situation is in a state of flux. With the development of intelligence, the development of science and technology, renovation, transformation, tapping of potential, intensive expansion of reproduction as well as the improvements in technical proficiency and productivity of the laboring people, the necessary labor time in society which determines commodity value will inevitably decrease (while that which exceeds the necessary labor time in society will be eliminated). However, because of the differences in enterprise production factors, technological levels, raw material consumption and the extent of the improvement of labor productivity, a product will have different production prices in different production enterprises. Precisely because of this, the commercial sector will purchase the same product at different prices from different production enterprises. This will in turn lead to "variable prices for the same commodity" on the same market. This is an inevitable result of uneven growth in labor productivity.

Finally, does "variable prices for the same commodity" violate the law of value? The answer is no.

Price is the monetary manifestation of value. Commodity value is determined by socially necessary labor time. The regulatory role of the law of value on production and circulation is primarily realized through prices and is manifested through the correspondence (basic correspondence) between price and value and the departure of one from the other. Correspondence between price and value can only be realized when commodity supply is consistent with demand. However, with respect to the market, practice often demonstrates that an absolute balance between supply and demand is rare and virtually nonexistent. Thus, playing a role in the law of supply and demand, prices often depart from value in many ways and "fluctuate up and down" around the axis of value. Therefore, "variable prices for the same commodity" is precisely a manifestation of such a departure and is a common manifestation of the law of value.

Based on the above analysis, we should not regard "variable prices for the same commodity" as an indication of confusion, nor should we equate it with price inflation as it is actually a manifestation of flexibility.

Lastly, we must draw a clear line of demarcation between "variable prices for the same commodity" and "arbitrary price hikes," and practically and realistically differentiate the two. Arbitrary price hikes and disguised price hikes involve reducing quantities and lowering quality so that the two do not correspond, which is tantamount to a price hike in disguise; purchasing at retail and selling higher; arbitrarily increasing prices beyond parameters set by state policies and unilaterally floating prices beyond prescribed levels or for products outside of prescribed categories. These practices are absolutely forbidden by state policy. As long as we clearly distinguish between "variable prices for the same commodity" and "arbitrary price hikes," we run no risk of drifting from the former into the latter.

9335

CS0: 4006/874

FINANCE AND BANKING

BRIEFS

SHANGHAI ISSUES BANK BONDS--According to the 8 September JIAFANG RIBAO, Shanghai Municipality will issue bank bonds within this year amounting to 65 million yuan, of which 15 million yuan in bonds will be sold to individuals in the city proper by the municipal industrial and commercial bank and the other 50 million yuan in bonds will be sold to individuals in the countryside in the suburban districts by the municipal agricultural bank. The bonds are in three denominations of 20, 50 and 100 yuan, the time limit is 1 year and the annual interest rate is 9 percent. This is the first time that bank bonds have been issued by the banks. The issuing of bank bonds in Shanghai at this time is primarily to channel a portion of individual consumption funds in the urban and rural areas and transform it into production funds so that these funds can be fully used in extending special loans. They can also be used to help technological transformation and capital construction projects in collective enterprises in the cities and rural and township enterprises in suburban counties whose products are urgently needed by the general public. Projects promising good economic results can be completed and put into operation by investing small amount of funds and these funds can solve the urgent needs of circulating funds once those projects are finished. The annual interest rate on special loans ranges from 12 to 14 percent. [Text] [Guangzhou GUANGZHOU RIBAO in Chinese 18 Sep 85 p 3] 12662/12859

HEILONGJIANG TAX REVENUE--As of 30 November 1985, Heilongjiang Province had collected 50,055,430,000 yuan in tax revenue, prefulfilling the annual plan by 0.2 percent. If calculated in terms of comparable items, the increase was 501.6 million yuan greater than that of the same period of 1984. [Text] [Harbin HEILONGJIANG RIBAO in Chinese 14 Dec 85 p 1 SK] /9738

GUANGDONG'S SAVINGS DEPOSITS UP--Guangzhou, 10 Jan (XINHUA)--Bank savings deposits were a record four billion yuan last year in Guangdong Province, South China, according to local bank officials. Half the total deposits were entrusted to industrial and commercial banks in the urban areas, and the other half to agricultural banks in the countryside. Total urban deposits at the end of 1985 amounted to 7,410 million yuan, averaging 460 yuan per capita. Since 1982, the annual increase of urban bank deposits in the province has ranked first in China. Guangdong's retail sales were 31 billion yuan last year, a 22 percent increase over 1984. [Text] [Beijing XINHUA in English 1457 GMT 10 Jan 86] /9599

CSO: 4020/188

INDUSTRY

JIANGSU PROVINCE TOP INDUSTRIAL PRODUCER

OW111626 Beijing XINHUA in English 1538 GMT 11 Jan 86

[Text] Nanjing, 11 Jan (XINHUA)--Jinagsu Province reported to have surpassed Shanghai and Liaoning Province in terms of industrial output value to become China's top industrial producer.

Statistics released by the province today indicate that the province's total industrial output value in 1985 amounted to 86,354 million yuan.

The province's industry began to pick up speed from 1980, when rural industries began to spread throughout the province. By the end of last year, its industrial production doubled that of 1980, registering an annual increase of about 14 percent.

Jiangsu is one of China's economically developed provinces, with textile, machinery and chemical industries dominant.

The province's industrial enterprises, especially rural factories, developed rapidly between 1981 and 1985 to more than 100,000 units, ranking first in the country.

Last year saw three of its 11 cities--Suzhou, Wuxi and Nanjing--yield more than 10 billion yuan industrial output value each.

The province's rural industrial output value reached 36 billion yuan last year, accounting for one-third of the province's total.

Jiangsu is one of the priority areas for state capital investment with more than half of the 55 key state projects completed or being built.

These projects include coal mines, petrochemical plants and cement works.

Going side by side with the rapidly developing industry is the agricultural production, flourishing businesses, foreign trade, scientific research and the standards of the people's living.

The average possession of grain per capita has reached 500 kg.

Its total retail sales reached more than 30 billion yuan last year, up 94.2 percent over 1980, or an average increase of 14.2 percent per year since 1981.

The province has set up a chain of export-oriented production centers and established trading relations with 120 countries and regions. Its total import and export volume went up 15 percent a year between 1981 and 1985.

The province has more than 1,000 scientific research findings to its credit, including the prize winning optical fiber studies and transplantation of test-tube seedlings.

The average per capita income in rural and urban areas has increased by 16 and 7 percent, respectively, in real terms over the past 5 years.

/9738

CSO: 4020/172

CONSTRUCTION

DEVELOPMENT OF BUILDING PAINTS IN JIANGSU DISCUSSED

Nanjing XINHUA RIBAO in Chinese 16 Sep 85 p 1

[Article by Shi Jinchang [2457 6930 2490]: "Let Buildings Take Off the 'Grey Uniform' and Put on a New Suit; Jiangsu's Development and Research on Building Paint Progress Rapidly, Ranking First in Variety and Quality in the Country"]

[Text] The many houses and buildings completed for Jiangsu residents in recent years have done away with the "grey uniform" old look in the past. This is the result of the efforts made by scientific research units concerned in Jiangsu in energetically developing and popularizing building paints. According to statistics, up to now, Jiangsu has developed 41 kinds of building paints with an annual output of 30,000 tons, ranking first both in variety and quality in the country.

Building paint with its numerous fine points, such as rich color and luster, adhesiveness, durability and convenience for use in building has become an important trade of the building industry internationally. Jiangsu began its development and manufacturing in the 1970's and large-scale development did not start until 1982. At that time scientific research personnel of the building materials and chemical industrial departments who studied the situation at home and abroad and conducted a social survey felt that with the rising in the people's living standard, the people had also imposed high demands on the appearance of the working and living environment and that replacing the traditional lime and paint with building coating would be a natural trend. With this in mind, they steadily stepped up research in this area up to a certain scale. On this basis, units engaged in scientific research of building paint, production and construction voluntarily got together and formed the provincial scientific and technological information network on building paint. In addition, the provincial scientific commission, the planning and economic commission and the construction commission in June 1984 organized research institutes, universities and factories to form a provincial building paint technological development department to further develop building paint through the close coordination of scientific research, production and application units in tackling key problems in concerted efforts. To ensure the quality of paints, the provincial bureau of standards has asked research institutes concerned to draw up eight criteria governing paints and set up a provincial-level quality supervision and inspection station.

The building paint developed by Jiangsu is of great variety and good quality and has numerous characteristics. The floor coating compound and construction process developed by the Changzhou research institute of building science can process a cement floor by simple means to make it look like marble, wood paneled or carpeted floor which is about eight times more wear-resisting and water-tolerant than conventional paints and the cost is also lower. The traditional waterproofing and heat-insulating materials on house surfaces are of "two felts and three oil's" meaning coated with two layers of felt and three layers of tar which are not only offensive to the eye but also hard to put on. With the help of the Physics Research Institute of the Chinese Academy of Sciences and other units, that institute has developed a kind of paint which is easy to spray with good results. The paint developed by the Suzhou Research Institute of Building Science that produces the effect of multiple decorative patterns can be used to decorate balcony balustrades and windowsills to give the appearance of cermaic tiles with a cost one-fourth lower than that of ceramic tiles.

In the course of popularizing building paints, Jiangsu's scientific research units have adopted numerous ways and forms, such as transfer of technology, setting up joint entities, training personnel for others and jointly or independently operating experimental factories. The provincial research institute of building sciences alone has signed 54 contracts on transferring paint technology with factories both inside and outside the province in the past 2 years and set up five joint entities of scientific research and production with units concerned in Nanjing City, Huaiyang City, Shazhou County, Wujiang County and Jiangyang County and the amount of transactions came to more than 700,000 yuan. The experimental factory of that institute with an annual output of more than 2,000 tons has become Jiangsu's largest paint production factory.

12662/6662  
CSO: 4006/82

## CONSTRUCTION

### ACCELERATED CONSTRUCTION OF ENERGY, TRANSPORT PROJECTS

Beijing JINGJI RIBAO in Chinese 21 Sep 85 p 1

[Article by reporter Xu Haifan [1776 3189 1581]: "Construction of Key Projects in Energy and Transport Has Been Accelerated by Keeping Macroeconomy in Mind and Proceeding From the Overall Situation To Strengthen Capacity in Carrying on Economic Construction"]

[Text] As a result of the priority arrangements made by various departments and regions in providing funds, materials and equipment, the speed of construction of a number of backbone projects in energy and transport whose capacity ensures continuous economic construction in China was generally accelerated from January to August this year. The 1969 key state projects whose construction was organized based on a rational time limit for the projects fulfilled 63 percent of the total investment plan, which was higher than average national level of 59 percent. Owing to the accelerated speed in construction, some projects were completed and put into operation ahead of schedule.

In power construction, the State Council required that the 5-million-kW generating unit be completed and put into operation this year. By the end of August, 950,000 kW had been put into operation and a 72-hour test run is now being conducted on the 600,000-kW generating unit, and the installation of the main body of other generating units to be put into operation according to plan has been completed and readjusted one after another for test runs. Based on the current speed of construction, the planned tasks can be accomplished by the end of the year.

The 14 key mining districts of the coal industry completed a total of 117,000 meters of mine tunneling during the first 8 months of this year, or an increase of 4.5 percent over the same period last year. Of these, the Huaibei Linhuan mine of 1.8-million-ton construction scale is expected to go into operation by the end of this year, 1 year ahead of schedule, due to accelerated construction. Some mining districts have adopted measures to ensure coal production while still under construction. The Yanzishan mine in Datong is scheduled to be completed by 1988, but a mining area has been put into operation this year which is capable of producing more than 400,000 tons of coal.



Six key projects of the petroleum industry completed 7.44 million meters of well drilling from January to August this year which represented 85 percent of the plan, increasing additional crude oil production capacity 7.9 million tons or 70 percent of the annual plan. In addition, 18 key railway projects fulfilled annual investment by 70 percent. The 310-km-long Beijing-Qinhuangdao railway for transporting Shanxi coal out to other places has been opened to traffic; except for the Huang He bridge, track laying of the main line of the Xinjiang-Heze(?) [Xin He 2450 3235] railway has been completed and will be turned over for operation by the end of the year.

The construction of the Beijing-Wuhan-Guangzhou coaxial cable postal and telecommunications project originally scheduled to be finished by 1987 has been basically completed and the whole line will be completed in the third quarter this year. This 2,700-km-long line passing through 17 cities is the second major cable carrier telecommunication line in China.

Of the 35 key projects of the 6 raw material industries, including the iron and steel, nonferrous metal, chemical, petrochemical, building materials and forest industries, 9 have been put into operation, and the construction of other projects is new at its peak. The technological production process of the second-phase project of the Shanghai petrochemical general plant has been completed and has started production; the ignition of the No 1 blast furnace under the first-phase project of the Shanghai Baoshan iron and steel complex on 15 September, on which the attention of the people throughout the country focused, was successful and products measuring up to the required standards were produced.

12662/6662

CSO: 4006/82

CONSTRUCTION

SUCCESS OF BAOSHAN STEEL COMPLEX DISCUSSED

Beijing JINGJI RIBAO in Chinese 27 Nov 85 p 3

[Article by Cheng Yuan [4453 6678]: "Successful Example of Construction of a Key Project; Interview with Shi Qirong, Director of the Joint Office of the Baoshan Steel Complex Project of the State Planning Commission and the State Economic Commission"]

[Text] The Baoshan Iron and Steel Complex has linked hearts with the people throughout the country, for 7 years, its frowns and smiles have invariably brought joy and anxiety to 1 billion people. The first phase of the project was triumphantly completed and put into trial production on 15 September this year and the results were found satisfactory. By 10 November, it had produced 272,000 tons of iron, 164,000 tons of steel and 116,000 tons of marketable ingots, thus beginning to yield investment results. Recently we had an interview with Comrade Shi Qirong [4258 0796 2837], director of the Joint Office of the Baoshan Steel Complex Project of the State Planning Commission and the State Economic Commission and asked him to talk about the progress of the construction of the Baoshan Iron and Steel Complex and related experiences.

Comrade Shi Qirong who engaged in capital construction planning and administration work for a long time has also spent considerable time in actual and leading work in the iron and steel industry. Touching on the progress of construction and the Baoshan Iron and Steel Complex, he said, the iron and steel industry is one of the infrastructure industries to be developed with priority. In 1978, the whole country produced 31 million tons of steel which were far from satisfying the needs in various fields. By relying on imports, an enormous amount of foreign exchange has to be spent each year. To solve this problem, besides carrying out technological transformation of old enterprises, it is necessary to build a few new iron and steel plants at the same time. It was under these circumstances that the decision to construct the Baoshan Iron and Steel Complex was made. During the early period of construction, due to overanxiousness for quick results, "rush construction" was emphasized, some foreign exchange was spent unnecessarily when certain materials that could be supplied and equipment that could be manufactured domestically were also imported because insufficient proof of feasibility was presented. In 1981, in the course of national economic readjustment, construction of the Baoshan

Iron and Steel Complex was postponed, only after experts determined that construction should be done in stages that construction of the Baoshan Iron and Steel Complex was able to progress steadily.

Touching on the plant site of the Baoshan Iron and Steel Complex, Shi Qirong said that at the beginning an on-the-spot investigation was conducted in several places along the coast, including Shanghai, Zhejiang and Shandong, from which it was found that each place had its advantages and disadvantages. However, it was finally concluded that it would be better to have it built in Shanghai. Building it in Shanghai will be advantageous for accelerating the construction of the Baoshan Iron and Steel Complex and for production management after it is completed and put into operation. Because we were worried about Shanghai's topographical foundation, which was considered too soft at that time, we invited experts to give testimony and do some calculations, and they were of the opinion that the matter could be completely solved by applying modern science and technology. The Baoshan Iron and Steel Complex would not sink into the Chang Jiang. This was the view of Chinese and foreign experts after studying the situation. Since the mineral ores being consumed by the Baoshan Iron and Steel Complex mainly rely on imports, we should take this matter into consideration by proceeding from the national conditions. Although our country has tremendous iron ore deposits, more than 90 percent are lean ores which would cost more money and take longer to develop than our national financial resources can bear. However, an analysis of mineral ore production in the international market shows that it is worthwhile to import mineral ores because much time can be gained by so doing.

Comrade Shi Qirong then briefed us on the Baoshan Iron and Steel Complex's technology and equipment. He said, generally speaking, the technology imported by the Baoshan Iron and Steel Complex is advanced and compared with the existing iron and steel enterprises in the country, its equipment is characterized by huge size, continuity in operation and automation. The Baoshan Iron and Steel Complex's 4,063-cubic-meter blast furnace, the 300-ton oxygen top-blown convertor and the 450-meter sintering machine are the biggest equipment of the same categories in the country. In addition, the 19 electronic computers, the more than 200 microprocessors and the more than 60,000 automatic control meters have ensured the best form of operations in production to attain the goal of higher output, better quality and lower consumption. The first-phase project of the Baoshan Iron and Steel Complex consumes 0.9 ton of standard coal for each ton of steel reaching the international advanced level. On the other hand, the domestic level is close to 1.3 tons of standard coal.

At the beginning, people were extremely concerned about the serious pollution that would be produced in the Shanghai city limits after the completion of the Baoshan Iron and Steel Complex. In this connection, this reporter specifically asked Comrade Shi Qirong to fill him in on how the Baoshan Iron and Steel Complex would protect the environment. Comrade Shi Qirong said that the first-phase project contained 165 installations for environmental protection and that an automatic environmental monitoring

system had also been established. The Baoshan Iron and Steel Complex's smoke and gas emissions measured from 50 to 100 mg per cubic meter in dust contents, which is better than the standard of 150 mg set by the state. The circulation rate of water for industrial use reached 95 percent.

Touching on the role of Baoshan Iron and Steel Complex in the development of the iron and steel industry and the four modernizations drive in our country, Comrade Shi Qirong said the Baoshan Iron and Steel Complex, equipped with advanced technology, had reached the international level in the late 1970's. By mastering and applying the imported technology, it has provided experience for use as reference by the old enterprises in technological transformation and also trained large numbers of specialized personnel equipped with modern management knowledge, thereby bringing up the technological and management level of China's iron and steel industry and other pertinent professions and trades and promoting national economic development. In this sense, the construction of the Baoshan Iron and Steel Complex is of realistic and far-reaching significance. The quality of all products turned out by the Baoshan Iron and Steel Complex is matching the international advanced level, and products such as petroleum pipes and boiler pipes, are critically short at home and are being imported in large quantities. To a certain extent, it has eased the acute shortage of rolled steel and also filled some blank spots of varieties of rolled steel in the country.

The construction of the Baoshan Iron and Steel Complex represents a successful example of the construction of a key project in China. In describing the experience in constructing the Baoshan Iron and Steel Complex, Comrade Shi Qirong said that network planning and management techniques were employed throughout. Construction involved 22 major projects with foreign contractors, plus domestic conveyance systems, 1,152 projects in all whose order of priority strictly observed the progress chart. In the meantime, attention was paid to discovering weak links and steadily achieving a balance. We did not fight a disorderly battle nor did we proceed with caution. The headquarters of the Baoshan Iron and Steel Complex project had done a great deal of work in keeping pace with the entire construction progress from beginning to end, thereby ensuring its completion and putting it into operation according to schedule.

Strict and harsh demands were imposed in the course of construction to ensure engineering quality. There were four quality inspections a year, so it is not fortuitous that so many quality projects were completed. Coordination is of great importance in undertaking such a mammoth project as the Baoshan Iron and Steel Complex, which has involved not only numerous provinces, municipalities and central departments, but also many more factories. Construction could not have progressed so smoothly without the support of the people throughout the country and the coordination and cooperation of so many departments, provinces and municipalities. To resolve the problem of unrestrained "spending" the Baoshan Iron and Steel Complex has since 1982 been undertaking budgetary estimates for investments, and has achieved success. Investments in the first phase of the project

totaled 12,877,000,000 yuan, of which 4.5 billion yuan came from domestic investment. The headquarters of the Baoshan project committed itself to take responsibility for 3.86 billion yuan, thus saving the state 190 million yuan. This commitment was fulfilled after 5 years of hard work. This is something very rarely seen in the construction of huge projects at home.

At the end, Comrade Shi Qirong told us, while the Baoshan Iron and Steel Complex project has progressed in 7 years, many further changes have taken place in iron and steel technology in the world, such that new gaps in certain links have again appeared in the Baoshan Iron and Steel Complex, which is not unusual. Workers and staff members at Baoshan are now making further efforts to raise the technological level and the quality of the rank and file in keeping with the spirit of Comrade Deng Xiaoping's inscription: "To master new technology, be good at studying and even better at creating new things" to keep the Baoshan Iron and Steel Complex young always. Construction of the second phase of the project is now underway. We must follow up the experience of first-phase construction and build the second phase with good quality and with high efficiency by working ceaselessly and unremittingly. We must not only build the Baoshan Iron and Steel Complex efficiently, we must also manage it properly so as to produce more quality products for the state and steadily raise economic results.

12662/9604

CSO: 4006/426

CONSTRUCTION

COMPLETION OF JIUJIANG BRIDGE IN JIANGXI URGED

Hong Kong TA KUNG PAO in Chinese 4 Dec 85 p 3

[Article: "Construction of the Jiujiang Bridge on the Chang Jiang Between Nanjing and Wuhan To Continue; Jiangxi's Jiujiang Will Become a Second Wuhan; Nine Piers Appear in Mid-River, Experts Meet To Raise Funds for Completing Project"]

[Text] Jiujiang--Jiangxi's Jiujiang bridge construction project now at a standstill has aroused the attention of some experts. At the Jiujiang City testimonial meeting on economic and social development strategy and the Jiangxi provincial testimonial meeting on territorial economy, noted economist Yu Guangyuan [0060 0342 6678] pointed out that once the Jiujiang bridge is erected and once the proposed Beijing-Jiujiang railway and the Daye-Shahe railway are linked, Jiujiang will become a "second Wuhan" in the middle reaches of the Chang Jiang and will play a positive role in developing the economies of Jiangxi, eastern Hubei, and southern Anhui.

Most of the projects of the Jiujiang bridge have now been completed. The nine piers standing prodigiously in the middle of the river and the parabolic railway and highway bridge approaches constitute an exquisite and harmonious landscape along the riverbank. This "passage over the natural moat" between Wuhan and Nanjing will be completed as soon as the steel beams are erected and rails are laid. However, the entire project is now at a standstill and the bridge builders have become a maintenance crew. It is estimated that more than 2 million yuan have to be spent each year for its upkeep and maintenance.

Well-known bridge expert Mao Yisheng [5403 0110 0581], who came here on an inspection tour, indicated after comparing the advantages and disadvantages of different plans that this project should be completed as soon as possible in order to avoid bigger economic losses.

It is reported that Jiangxi, Hubei and Anhui provinces have initiated consultation on fundraising to carry on the building of the Jiujiang bridge and are planning to see this project start well and end well with the approval and support of the central departments.

After the bridge is completed and before the Beijing-Jiujiang railway is connected (missing is the Hefei-Jiujiang section), this bridge will be temporarily used as a highway bridge, thus the three provinces and areas on both banks of the Chang Jiang can be linked up economically without delay. Once the Beijing-Jiujiang line is completed, the dream cherished by the people in the old revolutionary area in southern Jiangxi of having the Xiangxi-Ganzhou railway will come true, Beijing and Jinggangshan will be directly linked through the Beijing-Jiujiang line and the Nanchang-Jiujiang line by crossing over the Zhejiang-Jiangxi line. If further extended southward to Shaoguan in the future, a new Beijing-Guangzhou railway with outstanding economic results will stretch over the good earth of Jiangxi and Guangdong provinces.

12662/9604

CSO: 4006/426

## CONSTRUCTION

### HUNAN'S SEVENTH 5-YEAR PLAN DISCUSSED

Changsha HUNAN JINGJI XINXI BAO in Chinese 3 Aug 85 p 1

[Article by Zou Yimou [6760 6318 6180]: "Suit the Needs of the New Situation, Draw Up the Seventh 5-Year Plan Well; Vice Hunan Governor Chen Bangzhou Emphasizes at Provincial Symposium on Seventh 5-Year Plan: In the Process of Drawing Up the Seventh 5-Year Plan, It Is Imperative To Understand and Analyze the Situation With "Dynamic" Viewpoint Instead of Looking Upon Matters in a Static Way"]

[Text] Vice Governor Chen Bangzhu [7715 6721 2691] said at the provincial symposium on the Seventh 5-Year Plan, China's national economic and social development will soon enter into the period of the Seventh 5-Year Plan after comprehensively fulfilling and overfulfilling the Sixth 5-Year Plan.

Chen Bangzhu said that the Seventh 5-Year Plan period is a crucial period in which the reform of the socialist economic, scientific and technological and educational systems is to be carried out comprehensively, it is also a period of great importance in achieving the targets of struggle put forth by the 12th CPC Congress. Successfully drawing up the Seventh 5-Year Plan, therefore, is of vital significance in consolidating and developing the excellent situation for economic construction and in economic invigoration in the 1990's. Drawing up the Seventh 5-Year Plan is the second of the four cardinal tasks that the whole party have to fulfill this year. The provincial CPC committee and the provincial government have studied the matters many times, and the Fifth Provincial CPC Congress has also put forth the targets of struggle to bring up the total industrial and agricultural output value of the whole province to 65 billion yuan by 1990, to strive to double it by 1989, to attain the per capita national income of 700 yuan and to keep the population under control within 59.6 million. All these targets are to be reached while raising the economic results. Economic construction in our province under the Seventh 5-Year Plan should be further geared toward a new path so that the speed can be realistically achieved, results are improved and the people can receive more material benefits. While invigorating the economy, it is imperative to set up a system to exercise macroeconomic control, bring relations into better balance and achieve a benign cycle. While doing a good job in reforming the economic system with the cities as the key, we must persevere in the policy of opening to the outside world and invigorating



the domestic economy more boldly in keeping with the demands arising from the development of the commodity economy. We must readjust the production structure, transform traditional industries and develop new and rising industries and the tertiary industry; we must centralize funds to accelerate construction in the fields of energy, transport and raw materials that are in short supply and build up the necessary capacity to carry on in the 1990's; we must make use of the existing infrastructures and accelerate the technological transformation of enterprises; we must expand export in foreign trade and increase foreign exchange receipts; we must pay special attention to science and technology and personnel training and give play to personnel in various capacities; we must further develop various social projects.

The Seventh 5-Year Plan covers an extensive area, involves a great deal of work and time is very pressing, thus we need to organize forces from all sectors to carry it out. Various prefectures, autonomous prefectures and municipalities should each have a commissioner, magistrate and mayor, various departments and bureaus concerned should each have a director to specifically concentrate on this important work and set up and perfect the Seventh 5-Year Plan leading groups.

In the course of drawing up the Seventh 5-Year Plan, we should understand and analyze the situation with a "dynamic" viewpoint and cannot look at issues in a static way. We should fully appraise all kinds of favorable conditions around us and the tremendous potential in various areas and oppose following the old ways while in the meantime fully reckoning all kinds of unfavorable conditions and difficulties that may develop, insisting on seeking truth from facts and acting according to our own capability. Our plan should leave some leeway and should guard against unrealistically going after high targets. We should achieve a general balance effectively, link up the higher and lower levels harmoniously, solicit opinions from all sides and combine the traditional method with the modern forecasting method so as to make the plan more scientific.

12662/6662

CSO: 4006/93

6 February 1986

## CONSTRUCTION

## BRIEFS

SICHUAN HIGHWAY REPAIR PLAN--The Sichuan provincial communications department is adopting measures to finish repairing the road surface of three very deteriorated highways in a determined effort within a short period of time so as to facilitate economic development in the hilly regions. These highways are the Suining-Lezhi, Naxi-Xuyong and Beichuan-Pingwu highways. According to the arrangement of the provincial communications department, in repairing the Suining-Lezhi highway, it is planned that the 5-km section in the worst shape will be bedded with sand pebbles this year and will be paved with asphalt rocks next year. Repair will be started in most of the other sections next year and efforts will be made to complete the entire repair project at an early date. The Suining section maintaining this highway section is in charge of the repair project. On the Naxi-Xuyong highway, a stretch of 10 km has to be widened and renovated. The communications department has decided that the engineering team of the Yibin road maintenance general section will be in charge of this project. In regard to the several places where vehicles have bogged down more frequently, efforts should be made to drain off water and pave with slabs and crushed rocks so as to keep traffic open. Another 17-km section has an oiled surface that needs to be repaired. At present, a bed layer has been laid and a leveling layer with crushed rocks will be added and completed within this year. A plan has been made to repair another 6-km section where the oiled layer is peeling off and exposing the bedrock. Work is also underway for the repair of the Beichuan-Pingwu highway covering a distance of 19 km. [Text] [Chengdu SICHUAN RIBAO in Chinese 16 Sep 85 p 1] 12662/6662

CSO: 4006/93

FOREIGN TRADE AND INVESTMENT

CHINA'S TECHNOLOGY IMPORT POLICY UNCHANGED

Beijing RENMIN RIBAO (OVERSEAS EDITION) in Chinese 1 Oct 85 p 2

[Article by Wang Xidong [3769 2569 2639] and Shi Chunzhi [2457 4783 1807]:  
"Our Country's Technology Import Policy Is Unchanged: Implementation of  
Contract Approval Procedures Will Expedite Development of Technology Import  
Work"]

[Text] Once approved by the State Council and issued by the Trade Ministry, the  
"Approval Procedures for Contracts Involving Technology Imports" will begin to  
take effect on 1 October. Just prior to that time, reporters visited with the  
vice director of the Technology Import/Export Economic Trade Bureau.

This official pointed out that the purpose of the "Procedures" is to strengthen  
technological cooperation between Chinese and foreign interests and to expedite  
the growth of foreign technological imports. He said that the "Procedures" le-  
gal form is designed to dispel doubts foreign interests might have with regard  
to transferring technology to China; it safeguards and guarantees the legal  
rights and interests of Chinese and foreign enterprises.

The "Approval Procedures for Contracts Involving Technology Imports" stipulates  
that any sector signing a contract that involves the importation of technology  
must go through government approval procedures. The purpose of this is to  
catch any potential unreasonable conditions in such contracts in a final exam-  
ination, thus protecting the enterprise interests. At the same time, this  
process will ensure that the contract has a definite legal status.

This official said that once a contract involving technology imports has secured  
government approval, the domestic and foreign enterprises signing the contract  
must proceed in all matters according to the law, and not unilaterally renege on  
any part of a government-approved contract. In this way, we will be able to in-  
crease the importance of such documents and ensure their legal protection as  
well, which is in the best interests of both sides.

He said that in order to increase the effectiveness of the work of approving  
such contracts, and in order to exercise the functions of local economic and  
trade departments, the country will not be concentrating approval authority  
centrally, but rather will distribute such authority in various degrees accord-  
ing to the level of administrative authority, granting approval authority to  
local areas and thereby encouraging their enthusiasm.

He pointed out that in the past there were a number of cases in which enterprises who were not aware had signed contracts not submitted to them for government approval and it was found later that these contracts in fact violated the law. There were also other places that had cases of an excessive number of imports or redundant items, thus resulting in a waste of our country's foreign currency reserves. Instituting government approval procedures will be a great help in strengthening the direction of and organizing our country's enterprises and will give full reign to technology importing, thus increasing cost effectiveness.

China currently has 400,000 enterprises that are in need of technological improvement, and the range of Sino-foreign technological cooperation is quite broad. From 1981 to the present, there have already been 1,300 plans involving technological imports with a volume of \$4.6 billion that have been approved by the Ministry of Foreign Economic Relations and Trade alone, and of those 66 percent were contracts signed with Japan, the United States, and West Germany. The primary kind of technology involved mechanics, electronics, light textiles, construction, chemicals, etc.

This official stressed that importing advanced technology is a long-term policy in China and will not change. China not only abides by the relevant stipulations of the "Patent Laws," but at the same time recognizes the proprietary technological rights of enterprises and individuals.

13087/12859  
CSO: 4008/2009

FOREIGN TRADE AND INVESTMENT

JAPAN'S RELUCTANCE TO EXPORT TECHNOLOGY ANALYZED

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 48, 2 Dec 85  
pp 48-49

[Article by Tian Liwei [3944 0504 4885]: "An Important Problem Demanding Prompt Solution in Chinese-Japanese Technological Trade"]

[Text] Japan is one of China's major partners in technology exchanges. Statistics show that the monetary value of contracts signed between China and Japan for the importation of equipment and technology over the past 10 years has accounted for one-third and one-half respectively of the total monetary value of all contracts signed between China and foreign countries. Between 1973 and 1984, China used foreign exchange to import 319 kinds of equipment and technology from Japan, these transactions amounting to nearly \$6 billion. Technology exchanges between China and Japan hold advantages in terms of "time, geographical propinquity and cultural similarities." Potential is great and prospects are excellent for expanding technological exchange and promoting comprehensive development of economic and trade relations.

There can be no denying, however, that quite a few problems still exist in technological exchange between the two countries. This has shown up rather notably in quite a few Japanese enterprises' protracted conservative and negative attitudes toward technological transfers to China. Statistics show that in the course of technological exchange between China and West Germany and the United States in recent years, the ratio of contracts primarily for importation of equipment and technology was 1:1, and the ratio of monetary value was 25:1. In technological exchange with Japan, however, these two ratios were 3:1 and 118:1 respectively. This is to say that for every three technology exchange contracts and for every \$118 of technology transactions, only one contract and \$1 were primarily for the importation of "software" technology. [JPRS note: The term ruanjian [6516 0115], software, does not fit this context, which seems to call for disembodied technology in general. Ruanjian is placed in quotation marks throughout the original text, with one exception. See expansion below in paragraph six of this article.] A look at the actual process of technology exchanges by enterprises from both countries shows that it was very common for quite a few Japanese enterprises not to want to transfer technology. Typically, this showed up in the following ways: (1) Directly or indirectly under one pretext or another to refuse transfers. For example, in 1984 a Chinese company inquired about the price for importating

6 February 1986

plexiglass manufacturing technology only to have the Japanese firm refuse to provide it on grounds of "too small-scale production." (2) Some businesses wanted to transfer the technology, only to encounter reproach from other businesses that resulted in their refusal. (3) Asking a high price, when actually they did not want to transfer the technology. Sometimes the quoted price for "software" was as much as 100 times higher than the quoted price of other countries. Such examples were fairly numerous. (4) Sometimes the Japanese firms changed their original attitude once they saw transfers by businesses in other countries, agreeing then to transfer the technology. Technology for the manufacture of color photographic film is a case in point. (5) In some cases, not only was the quoted price high, but harsh terms were attached. An example was the requirement in transfer contracts that Chinese businesses would never export "goods covered by the contract" and would forever keep secret the technology. Chinese businesses reacted rather sharply to this requirement.

The appearance of these problems is directly related to the existence of a one-sided understanding and a suspicious attitude on the part of some Japanese businesses on the basic issue of transferring technology to China.

First of all, the guiding ideology among some Japanese firms about developing economic and trade relations with China is very one-sided. According to a report in the 6 August 1984 issue of NIHON KEIZAI SHIMBUN, a "survey of views on the Asian market" conducted among 160 major Japanese businesses involved in the Asia market showed that Japanese enterprises' "main reason for their growing interest in Asia is not to make it a production base, but rather to make it a consumer market." Most of these businesses have close economic and trade ties with China, and the aforestated conclusions also directly reflect their basic attitude toward the China market. It should be pointed out that not only is China a huge consumer market, but it is also a technology market that holds tremendous potential demand. Realization of national economic development goals will require that China bolster development of energy and transportation, geological prospecting, electronics and communications, machine industries and other burgeoning industries.

During the period of the Seventh 5-Year Plan, in addition to continued building and new building of some major large scale projects, nearly 400,000 state-owned businesses will have to undergo technical transformation, while the level of production technology in coastal areas is also in dire need of improvement. Surveys conducted during the past 2 years show that approximately 60 percent of mechanical and electrical products and more than 70 percent of light industrial products are of 1950's to 1960's vintage, necessitating importation of large amounts of advanced foreign technology, including a large dose of "software" technology. Foreign statistics on 15 developing countries during the late 1960's and 1970 show an annual expenditure for software that is generally equal to 4 percent of foreign exchange received from exports. These statistics included Mexico with 16 percent, while the amount is still less than 1 percent for China. On the basis of the potential of the Chinese technology market, if it reaches 5 percent, that will amount to more than \$1.2 billion, which still is not a large figure. Clearly, the guiding thought among some Japanese businesses to pay attention only to the development of commodity trade with China to the neglect of technological exchange is inconsistent with

the situation in China and is also inconsistent with the principle of equality and mutual benefit in developing economic relations between the two countries, and will have a deleterious effect on future expansion of Chinese-Japanese technical exchanges.

Second, some Japanese businesses have a positive attitude about exporting machinery and production lines to China, but they maintain a suspicious, wait-and-see attitude regarding transfer of technology. In recent years, some Chinese businesses have been anxious to import whole plants, individual pieces of machinery, and production lines rather than emphasize the importation of technology. While many businesses have used the country's foreign exchange to import technology, 80 percent of them still use it to import machinery, so the percentage of equipment manufacturing technology and production technology and techniques has been fairly small. Numerous places and units have spent very much foreign exchange in the ill-advised importation of assembly lines to produce household electrical appliances such as color television sets, refrigerators and washing machines. These situations have arisen because some enterprises have not strictly observed state regulations or conducted strict management checks. They were temporary mistakes. One has to realize that ever since the late 1970's, marked readjustments were made in China's technology import policies from the former importation of whole plants to importation of technology for the most part, which took the form mostly of licensed trade, advice and consultation, technical services, and cooperative production to obtain "software" technology such as patents or other permits for industrial property rights, transfers of specialized technology, provision of technical services, and administration and management. This change was necessitated by the objective laws of the development of China's economy. On the one hand, China had already developed a fairly complete industrial system, had a certain size technical corps with a certain level of technology, and its ability to manufacture machinery had also improved over what it had been. In addition, the China market for technology was very large and the amount of foreign exchange limited. Under these circumstances, it could only take the route of importing primarily technology. This has been the common experience of many countries, Japan among them.

In view of the various problems that occurred in technology importation such as too many organizations dealing with foreign countries and too large a proportion of machinery being imported, the pertinent authorities adopted a series of appropriate managerial actions. For example, they formulated a system of priorities for the importation of technology; strictly controlled importation of assembly lines for household electrical appliances; restricted unnecessary and duplicatory fact-finding trips abroad and redundant importation of equipment; improved transmission of data about technology markets abroad, improved training of a technology exchange corps; reorganized relevant trading companies, etc. They also promulgated national "technology import contract management regulations" and intensified examination and approval of technology import contracts. Experience has thus provided Chinese businesses with a fairly complete understanding of national policies on importing technology. Facts have shown that China's pursuit of a technology-first import policy will achieve rapid implementation and execution.

Third, some Japanese businesses worry that once technology has been transferred to China, the recipient will spread it around indiscriminately. Such apprehensions are unnecessary. In recent years, China has substantially perfected legislation pertaining to technical exchange. It has promulgated various laws including the "patent law," the "trademark law," and "regulations on management of technology import contracts." It has been a formal participant in the "Paris Treaty on Protection of Industrial Property Rights," and has upheld its responsibilities in protecting industrial property rights. With reform of the domestic economic system, separation of government and enterprise, businesses being responsible for their own profits and losses, and encouragement of sensible competition, enterprises will give all the more attention to protecting their competitive position in the fields of production and marketing. The domestic technology exchange market for compensated transfer of technology has already become an important means for transferring technology among enterprises. The so-called "one enterprise imports and 100 enterprises benefit" situation was an extremely isolated exception in the past that will be halted in the future.

Fourth, transferring technology to China may create a powerful competitor, which seriously concerns some Japanese businesses. China's emphasis on the importation of technology has as its most fundamental goal a rapid rise in the level of production technology. Certainly, this is a competitive issue, and in some cases the latecomers may surpass the oldtimers. However, in an overall sense, increasing the level of China's production technology will be advantageous for other countries, particularly Japan. Importation of advanced foreign technology will strengthen China's weak links in energy, transportation, electronics and communications, raise the level of domestic production, strengthen the competitiveness of export products and expand exports and foreign exchange earnings. All these things will help China develop economic and trade relations on a higher level with all the countries of the world including Japan, and will help in carrying out the open door policy for a long time to come.

Development of Chinese-Japanese technology exchange is a strategic issue that bears on the consolidation and development of economic and trade relations between the two countries, and this is a matter to which the knowledgeable in business circles in both countries should devote a high degree of serious attention. It is well known that technology exchange relationships have historically been an important basis for evaluating and balancing economic and trade relationships as well as political and diplomatic relations between countries. In the case of economic and trade relations alone, the steadily expanding adverse balance of trade for China in Chinese-Japanese trade has aroused the concern of all parties. As far as Japanese businesses are concerned, active transfers of technology to China help promote improvement in the quality of Chinese products and strengthen Japanese export capacity. It helps China solve its trade deficit problem and will give impetus to long-term development of economic and trade relations between both parties. Conversely, if China is regarded solely as a consumer market, and the only thought is how to enter it and take it over with no concern for assuming responsibility for helping China develop its production, this will hinder both the development of technology exchange and of the economy and trade as a whole. One must also realize that technology knows no national boundaries. Today when technology



develops with increasing speed, when the field of exchange expands increasingly, and when data transmission techniques are highly modernized, no country or business can monopolize technology for long. One country's technology may be possessed by another, which may even have had it longer and in a more refined state. For a country like Japan that has imported other countries' technology for so long, and whose source of so much technology has derived elsewhere, it will be even more difficult to maintain a monopoly for a long period of time. Today China's place in the international technology market has improved greatly from what it had been. On the one hand, China's domestic political situation is stable; its economy is developing; its foreign exchange receipts are increasing; and its capacity both to pay for and make repayment for imported technology is at an all-time high. At the same time, the countries of the world are giving increasing attention to development of technology exchange relationships and economic cooperation with China. Western countries have liberalized restrictions on the exports of technology to China. China has a choice in the widespread international technology markets, and conditions exist as never before for it to import the technology it needs. Under these circumstances, we will, as always, set great store by the technology exchange relations that China and Japan have fostered for a long time, and we earnestly hope that some Japanese businesses will be able to clear away roadblocks in their thinking, will take an overall view, will act realistically, and will help in the joint promotion of forward development of technology exchanges between the two countries.

9432

CSO: 4006/459

## SPECIAL ECONOMIC ZONES

### SHENZHEN'S GUIDANCE PLANNING SYSTEM DISCUSSED

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese No 10, 25 Oct 85 pp 28-31

[Article by Liu Zhigeng [0491 1807 1649] of Shenzhen Municipal Social and Economic Development Commission: "Implementation of Guidance Plans in Shenzhen SEZ Studied"]

[Text] To meet the requirements of SEZ construction, Shenzhen SEZ has carried out a series of reforms in the methods, means and forms of planning, in the target system and in the organization of management, with certain success particularly in the study and practice of implementing guidance plans.

#### I. Implementation of Guidance Plans as an Objective Certainty

The most important reason for Shenzhen SEZ to implement guidance plans is that its ownership structure is of many levels, its construction funds come from many sources, its products are sold through many channels, and its economic activities are regulated in many forms, apart from the uneven standards of socialized production and the independence of the economic units in material interests. Under such conditions, in the formulation and implementation of the state and the municipal government plans, we must seriously consider the law of value and attach great importance to the regulative role of the market. To be specific, whether the SEZ's planning is realistic or not has to be reflected in the realm of value. The plans must also be properly implemented through the use of economic levers and the market mechanism in order to regulate the relations of the interests of various quarters. At the same time, because of the high complexity and frequent changes in the SEZ's social and economic activities, which make the social needs at home and abroad difficult to predict, it would be impossible and unnecessary for the state to work out detailed and concrete regulations for all economic activities. These regulations would be unrealistic and might sap the vitality of the enterprises and hinder the development of the productive forces. To demonstrate the SEZ's quality as an integral unit in which different economic forms coexist under the domination of state capitalism and the leadership of a socialist state; to meet the objective demands of the law of value and the market mechanism in planned management as well as the innate requirements for increasing the enterprises' vitality, pressure and motive power in order to invigorate the SEZ's economy; to raise the scientific standard and increase the effectiveness of planned management of the SEZ; and to suit the SEZ's change to a foreign-oriented type, the implementation of guidance plans is entirely necessary.

Since the establishment of Shenzhen SEZ, the scope of mandatory plans has continued to decline, while that of guidance plans has continued to expand. At present, more than 80 percent of the plans implemented in the SEZ are guidance plans. The mandatory plans for agricultural production were abolished soon after the SEZ's establishment, and guidance plans were used even for industry. From 1980 to 1984, a capital construction investment of 3.5 billion yuan was used. Of this amount, more than 2.9 billion yuan, 83.2 percent, was provided under guidance plans. All the plans for transportation, posts and telecommunications, commodity circulation, cultural, educational and public health services, scientific and technological pursuits were guidance plans having the characteristics of some prediction. These plans are not coercive or authoritative like mandatory plans; they are open to consultation according to the requirements of the tasks. In implementation, they are adaptable and flexible and play their regulative role only through indirect and economic means. Although the targets and demands are spelled out in the plans, only the directions, the call for action, and the expectation for success are given. They indicate the goal for the municipality, and serve as the basis of the enterprises' planning in production.

To create a good investment environment, to ensure the success of the key projects, to speed up capital construction, and to import advanced technologies and scientific management methods to be turned into productive forces as soon as possible, very few mandatory targets have been set, mostly in the sphere of distribution. For state revenues and expenditures, foreign currency receipts and payments under unified municipal control, and capital construction projects with state or municipal investment, mandatory targets are necessary, but only for the time being. Along with the development and changes in the objective economic conditions, they will be revised and gradually abolished, and the scope of guidance plans will be enlarged to the maximum extent.

## II. Acceptance of State Macroeconomic Guidance by the SEZ

SEZ's were established according to the wise decision of the party Central Committee and the State Council as an outcome of the open door policy. Their objective is not only to develop themselves, but also to meet the requirements of the four modernizations drive by playing their role as "windows of knowledge, of technology, of management and of the open door policy." That is why the SEZ's must develop in a way suitable for the planned commodity economy of socialist China. It is thus imperative that the economic development in these special zones be governed by China's socialist plans; otherwise, it will be difficult to guarantee the correct orientation of their development or the attainment of the strategic objective. This is one of the reasons for the SEZ's to accept the guidance of the state's macroeconomic planning.

Another reason is that the economic and social development plans of the SEZ's must embody the requirements of national economic development. For this reason, the key and priority projects concerning the overall situation must be approved by the state.

Still another reason is that the SEZ's economy is only part of the overall national economy, and there is an interdependence between it and the inland economy. It is, therefore, necessary for the SEZ to develop extensive relations with the inland in matters of construction funds, technology and personnel, and these relations should be maintained in a planned way.

Since its inception, Shenzhen SEZ has correctly handled the relationship between the part and the whole and willingly accepted the state's macroeconomic guidance so that it could embody the state's interests and demands. The substance of its acceptance of guidance is as follows:

First, in working out its long- and medium-range plans and annual plans for economic and social development, the SEZ has paid attention to their consistency with state and provincial plans and programs and their inclusion in the state and provincial plans to varying extents. These plans should also be approved by the state and the province. The "Outline of the Program for the Social and Economic Development of Shenzhen (1980-2000)," Shenzhen's Sixth 5-Year Plan, Shenzhen's Seventh 5-Year Plan, and each of its annual plans have been carefully coordinated with the state and provincial plans and programs, and were reported to the state and the province for approval before their implementation.

Second, all large construction projects in the SEZ are reported to the provincial and state planning commissions for approval according to the state's "three, five, and one" stipulations (that is, when they are light industry projects requiring an investment of more than 30 million yuan; heavy industry projects requiring an investment of more than 50 million yuan; and other projects requiring more than 100 million yuan). All such large projects as the Dayawan Nuclear Power Station, the Shenzhen International Airport, and the Shenzhen SEZ Administrative Building, were reported and approved before the work began.

Third, the wage reform plan and the readjustment of some related planned prices were also approved by the provincial and state authorities before being carried out.

Fourth, the marketing of SEZ products at home, the exporting of products under a quota system, and the purchase of SEZ products in the domestic market to be exported later, are all included in state plans.

Fifth, the detailed rules and regulations for SEZ administration, the methods, steps and schedules for the issuance of currency in the SEZ and the setting of exchange rates were all approved by the party Central Committee and the State Council before their implementation.

### III. SEZ's Macroeconomic Guidance in Social and Economic Development

The SEZ's development is not only governed by state planning, but also subjected, more frequently and to a larger extent, to the macroeconomic guidance of the SEZ government, especially in the following respects:

First, guidance to long- and medium-range planning. These plans have the characteristics of a prediction of social and economic development. Though not binding in nature, they are nevertheless significant in providing guidance for the enterprises' production and business operations and serving as some reference material for foreign investment. That is why the SEZ must proceed from realities and shift the focus of its planning from the compilation, implementation, review and readjustment of annual plans to the study and drafting of long- and medium-range plans. Since 1982, it has compiled the "Outline of Program for the Social and Economic Development of Shenzhen SEZ," Shenzhen SEZ's Sixth 5-Year Plan

(Draft), and Shenzhen SEZ's Seventh 5-Year Plan (Draft). Recently, its Seventh 5-Year Plan was revised to meet the requirements of the SEZ's social and economic development strategy. The problems in complying with the strategy were thus initially solved and the development of the enterprises will proceed according to the plan.

Second, regulation with economic levers. Economic levers are the principal means for the implementation of guidance plans. Along with the continued reduction in the scope of mandatory plans and the continued enlargement of that of guidance plans, whether these plans are practical and whether they can provide useful guidance to the enterprises can be shown only in terms of value and their implementation can only be regulated with economic levers.

1. Credit as a lever. For the construction and development of an SEZ, the bank is required to raise huge funds, while enterprises of various economic sectors require different bank services. Thus, it is objectively necessary for the bank to carry out various reforms and to use economic levers to regulate the social and economic developments of the SEZ. First, it must reform its methods in dealing with the projects for which loans are to be granted, and discard some of the old restriction. As long as the project can produce good economic results and yield early investment returns, and redemption is assured, the loan should be granted regardless of whether it is for infrastructure facilities, investment in exploitation, importing advanced technological equipment, or developing tourism, transportation, energy resources or commercial housing. Second, the bank should expand the scope of credit, increase the variety of loans, and carry out mortgage experiments. Third, it can start its trust service to diversify its undertakings so as to accelerate the circulation and turnover of currency. Fourth, it should adopt a flexible interest rate and allow it to fluctuate within a 30-percent margin. These measures will solve the problem of supply and demand in the use of funds, encourage the development of the projects required in the SEZ, and restrict or eliminate the unnecessary projects.

2. Wages as a lever. Regardless of the departmental affiliation or the type of enterprise in the SEZ, the wages of its workers must be linked with its economic results and the workers' performance. In other words, the individual's wage must be in direct proportion to the enterprise's economic results and his work performance, and the form of wage payment must serve as an incentive. At present, the floating wages of workers in most enterprises in the SEZ account for about 50 percent of their total income. The wages of the productive personnel are directly linked with the enterprise's economic results, while the floating wages of the nonproductive personnel (including the administrative and the logistics personnel) are directly linked with the wages of the productive personnel. Thus, the problem of linking the income of the nonproductive personnel with the production of the enterprise is fairly satisfactorily solved, and the wages of all the workers are directly or indirectly connected with the enterprise's economic results.

3. Price as a lever. The rational use of price as a lever is the key to the smooth implementation of guidance plans. Shenzhen SEZ has correctly set price parity for Hong Kong and the inland. Because the prices of its industrial products are higher than those of Hong Kong and lower than those of the inland, while the prices of its agricultural sideline products are higher than those of

the inland and lower than those of Hong Kong, it has adopted the policy of delegating more administrative power to the lower levels, reducing the number of planned prices, and expanding the scope of free pricing. Then based on the varying effects of different commodities on the national economy and the people's livelihood, it has practiced two forms of price control: First, planned price which consists of fixed price and controlled price. The former is fixed by the state and the province, and the later is controlled by the SEZ government. Second, free price which is also divided into negotiated price and market price. Negotiated prices are set through consultation among the departments in charge and the trade unions concerned, the industrial and commercial enterprises, the foreign and domestic trades, and the regions involved; and the market price is to be set by the enterprises or producers themselves on the basis of supply and demand. At the same time, the price reform was directly linked and synchronized with the wage reform. In November 1984, the practice of keeping selling prices below buying prices was abolished, and then grain, edible oil, meat, gas and coal were sold freely at negotiated prices instead of state-set prices. The regulative role of the market is used in the selling of vegetables, and subsidies for selling at a loss have been discontinued. Some allowances are added to wages to offset the increase in the prices of grain, edible oil, meat and two other commodities so that this increase would not affect people's standard of living. This price reform has enlivened the market, which now has a plentiful supply of products of all kinds. The volume of retail sales in 1984 exceeded that of 1979 14-fold. The market of agricultural and foreign trade products is flourishing, and its volume of transactions increased 1.2-fold over the previous year.

4. Tax as a lever. Commodity production and circulation in the SEZ is mainly controlled according to the law of value, and its economic activities are mainly regulated by the market. Under such conditions, tax, as an economic lever, plays an important regulatory role in the attainment of planned goals. A highly flexible policy should be adopted to treat each case on its own merits in the use of this lever. The general principle is that the taxes here should be lower than in Hong Kong and the tax categories should also be fewer. For example, in dealing with enterprises with foreign capital, there are only 5 tax categories in the SEZ, but 11 of them in Hong Kong. The income tax rate in Hong Kong is 18.5 percent; in the SEZ, only 15 percent. The extent of preferential treatment for foreign capital depends on how large the investment is, how long the business operation period would be, and how advanced the technology to be imported. For example, industrial enterprises are granted tax exemption for 2 years and then a 50-percent reduction for 3 years. For service trades with heavy investment which are expected to operate for more than 10 years, the preferential treatment of tax exemption for the first year and a 50-percent reduction for the next 2 years would be granted. Similar treatment would also be granted to those enterprises dealing in such commodities as are in short supply in the SEZ. The products of enterprises in the SEZ are exempt from export tax, while their imports are free from customs duty and unified industrial and commercial tax, although some items, such as tobacco and liquor, are to be taxed at low rates. All export products and products that are produced and sold locally are tax free as an encouragement to exports and an aid to people's standard of living.

In implementing guidance plans, it has also made full use of such economic levers as exchange rates, subsidies, and other financial and economic means with fairly good effects.

Third, investigations and market forecasts. Because the state does not supply any raw materials to the SEZ or sell its products exclusively, it is necessary for the SEZ to work out its own guidance plans that are consistent with the law of value on the basis of investigations and economic forecasts. Investigations can uncover and help solve various problems in production and construction, on the one hand, and provide means, ideas and sound advice to the municipal party committee and the municipal government, on the other. Last year, more than 10 large-scale special investigations were conducted in various social and economic aspects, and a forecast was made on the basis of these investigations. After investigating and grasping the market conditions, and noting the amount of investment available for capital construction investment and technical transformation required for the city during the current year, the SEZ worked out an estimate of the major items required for the guidance of the enterprises, and these enterprises accordingly organize their business operations.

Fourth, the importance of information for guidance. Information is indispensable to the effective implementation of guidance plans and the regulation of economic activities. It is the method and means of improving the plans and ensuring a higher scientific standard for them. Shenzhen SEZ has attached great importance to the search for information, including commodity information, financial information, price information and particularly information on the foreign market to be used as data for the government's policy decisions and the enterprises' business decisions. While setting up various types of information and consultation companies, it also established the Shenzhen Municipal Information Processing Center, and used advanced modern technologies for the collecting, summarizing, processing, compiling, analyzing and storing of information in order to provide various information services in the capacity of an information window.

Fifth, administrative means as a supplement. While the scope of guidance plans continues to expand and economic activities continue to diversify, administrative means, in addition to certain mandatory plans in some cases, must be used as supplementary measures to avoid the possibility of flexibility turning into chaos. First, the criteria for the ever-increasing economic relations and activities were made into laws, and the work of economic legislation and the judiciary was duly strengthened. The legal system was also strengthened and enforced in all aspects of economic life. In the past several years, the SEZ has set up and continued to improve the various statutes, and already promulgated nine different statutes and detailed rules and regulations concerning land control, enterprise registration and control, the entry and exit of personnel, labor and wage control, commercialized housing and property control, economic contracts involving foreigners, the importation of technologies, preferential charges on the use of land and exemption from these charges. Being drafted now are the statutes and detailed rules and regulations concerning preferential customs duty, preferential industrial-commercial tax, contacts between SEZ personnel and outsiders, the control of foreign banks, trade unions and companies in the SEZ, accounting, property mortgage, credit control, and so forth. The systems of economic supervision and inspection were also strengthened, and the enterprises' economic and financial activities are unconditionally subject to the supervision of the government and the society. In this way, while the enterprises are exercising their own decision making power, the development of the entire economy under government guidance can also be assured.

SPECIAL ECONOMIC ZONES

SHENZHEN'S METHODS OF ECONOMIC ADMINISTRATION DESCRIBED

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese  
No 10, 25 Oct 85 pp 32-34

[Article by Gan Ziping [3927 1311 1627]: "On Shenzhen SEZ's Economic Administration"]

I

[Text] Having gained a better knowledge of the significance of SEZ's, people are also making increasing demands on them. Besides importing foreign funds and advanced technology, Shenzhen's economy must become foreign oriented and Shenzhen's enterprises should become active competitors on the international market.

Shenzhen's enterprises are now pushed into a new environment--the vast ocean of a world market economy. The supply of raw materials required and the marketing of their products are now mainly regulated by the market, and the foreign consumers are making very high demands in style and quality of commodities. The old system of planned economy is no longer workable. In fact, experiments in using mainly the market's regulative role began in the SEZ's economy long ago, although the structural reform failed to keep pace with the open door economy. Market economy has already occupied the leading position in Shenzhen, but the economic system still has many defects of the old economic system and lacks macroeconomic management and the necessary means of regulation for a market economy. A leading comrade of the party Central Committee wanted the SEZ's economic system to get out of the old conventions. In view of this leading comrade's comments, a study of the way of economic administration by the SEZ government will reveal the following three defects:

First, the SEZ government is not good at the use of prices, economic legislation, and credit as means of directing the enterprises toward its macroeconomic goal, and as a result, its intervention in the affairs of the enterprises has been too frequent. For example, the exhibition-sales bazaar of a certain company which desired to expand the scope of its business had to apply to the municipal government for approval and to go through many other procedures. Thus, on the one hand, Shenzhen's enterprises were unable to decide on their own destiny as best as they could in



accordance with the law of value and, on the other hand, the SEZ government would be encumbered with so many numerous routine jobs that it had no time or energy to study the strategy for the SEZ's development or to introduce any effective laws and systems to promote its economic development.

Second, government administration and enterprise management is still unseparated, with the contradiction between the agencies of the central government station in Shenzhen and the municipal government--that is, the department-region contradiction--as the direct unfortunate result. The unity between the Shenzhen government as the owner of the enterprises under the municipality, on the other, has been an uneasy one, and the way of after-tax profit delivery by the central government enterprises in Shenzhen (including the other units stationed here) which is different from that of the local enterprises--which deliver such profits to the local treasury--further intensifies this contradiction. As a result, different enterprises making different contributions to the local treasury are also receiving different treatment in residence registration and in leaving for or coming from Hong Kong. This has a very adverse effect on Shenzhen's economic resources and on its role of "fanning out" in two directions.

Third, Shenzhen's economic system, under which the regulative role of the market occupies the leading position, lacks some means of regulation and supplementation, and this defect has not yet received due attention. For example, the absence of a market of futures has led to the stockpiling of goods; the absence of stock markets makes it difficult to check investment results; so-called boards of directors and corporations exist in name only; and the absence of any organization to protect the consumers has brought losses to the consumers. Taxi drivers have refused to carry any passenger who can only pay in RMB. Although some administrative measures have been adopted with certain success, the problem cannot be basically solved without specific laws.

## II

Since the market's regulative role occupies the leading position in Shenzhen SEZ's economic system, more drastic reforms in the system are still needed. After the determination of the goal, the SEZ government's method of economic administration has become an important condition for its healthy economic growth and for the attainment of its goal.

First, the government's functions should be more clearly defined so that it could work out various economic policies and use the economic levers to achieve microeconomic flexibility and to exercise macroeconomic control over the SEZ. For this reason, it is suggested that the following four systems be set up for the government's economic administration.

1. Research system: to be formed of the government statistical department, the economic policy research department, and many still nonexistent agencies to support industry and commerce. Functioning in the capacity of such agencies in Hong Kong are the trade development bureau and the productive

force promotion center where they give counsel to the higher levels and offer services to the lower levels. These agencies collect information on economic activities, verify them with the statistical department, and then collaborate with the economic research departments concerned in making investigative reports on current economic activities, offer suggestions, and draft the relevant economic laws and statutes.

2. Policy-decisionmaking system: formed of leading government officials and the top leaders of the departments concerned for the purpose of examining and passing judgment on the drafts of economic laws.

3. Supervisory system: formed of distinguished personages representing different interests in the society for the purpose of examining and supervising the drafting of relevant economic policies. These persons should have certain veto power.

4. Executive system: formed of various government functional departments including the industry and commerce administration bureau, the finance bureau, the tax bureau and so forth, for the execution of laws and the enforcement of relevant systems. The formation of these systems should be based on realities, but as a general principle, the government should be concerned with only major issues, not minor ones. For example, if there is a valid law concerning the registration and bankruptcy of companies, the enterprise need only go to the department concerned according to law for the necessary procedures, instead of approaching the municipal government for their examination and approval. The SEZ's economic activities will then be conducted according to the law of value.

Second, the formation of a corporation economy will help clarify the government-enterprise relationship and resolve the department-region contradiction.

It is suggested that the SEZ government set up certain financial institutions, such as trust and investment companies, to act as its representatives. The fixed assets of enterprises under the municipality and other enterprises in whose economic activities the municipal government plays a part should be converted into shares, and with the participation of the investment and trust companies or other financial institutions, these enterprises should become corporations. By this means, the executive branch of the government will be separated from the enterprises and will no longer exercise its ownership rights. Then the local enterprises, besides paying taxes, will only let the investment and trust company receive dividends for its share, and have no more reason to demand preferential treatment from the local government. If any enterprise is not well run, then the investment and trust company of the government can exercise its right as a major shareholder to employ another operator or simply sell out its share. Similarly, the municipal government can ask the central government enterprises or other units to pay their taxes in the way the local enterprises have been doing. By that time, the central government enterprises, the local enterprises, and the enterprises with

lateral ties will all be equal before the local government. In the case of an enterprise transferring its personnel from inland into Shenzhen and applying for the required residential registration, for example, there should be no distinction between central government enterprises or local enterprises. Should it be claimed that the influx of people would increase the strain on the social amenities, and that some poll tax should be levied, then this tax should be paid by both the central government enterprises and the local enterprises.

The early creation of a stock market is one of the necessary conditions for a corporation economy in name as well as in fact. This is also an effective measure to resolve the department-region contradiction. Direct investment among enterprises will remove the demarcation between central government enterprises, the other units stationed here, and the local enterprises, and all of these enterprises can be of an open type with mutual infiltration of funds. The administrative relations between the local government and the local enterprises will become increasingly fewer. (For the method of resolving the department-region contradiction, please read my article in Shenzhen YINJIN No 4, 1984.)

Third, to guarantee the smooth operation of the SEZ under a market economy, we must have the means of regulation and supplementation that are indispensable for such an operation. A market of futures, for example, can play a useful role in economic activities. When a speculative dealer anticipates a price rise and buys the commodity on the futures market, his action would promote the equilibrium of the market by inducing the sellers to supply more goods. If there is no futures market, the readjustment of prices, postponed until the shortage of goods is actually felt, would lead to severe and sudden fluctuations. Similarly, when the speculative dealer anticipates a surplus of certain goods, he will sell these goods on the futures market and his action will help bring the price down before there is an actual surplus and thus avoid overstocking. For quite some time, many enterprises in Shenzhen were overstocked with microcomputers, "838 calculators," electric fans for both heating and cooling, and so forth. These overstockings were all due to the absence of a futures market. Stock markets are also a means to regulate the economy. With the help of these markets, the funds of the society can be used with the aid of prices, profits, stocks and other signals to better advantage.

### III

As for the major issues, the Shenzhen government should demonstrate three outstanding features in its economic activities: first, the use of legal means, particularly in the formulation of various economic policies; second, the use of unconventional methods, such as indirect intervention through prices and other economic levers as well as the financial institutions; and third, the use of scientific methods and the adoption of economic policies only after extensive consultation as well as their revision according to the actual current conditions.

In addition, the government should provide various services to the enterprises including the following:

1. Regulate the public activities, such as the supplies of electricity, water and gas, the telecommunications system, railway transportation and so forth. The government should study the speed at which the public utility trade can recover its investment. It should also adopt regulative measures to prevent the enterprises from setting such an exorbitant rate for their investment returns as would affect prices. At the same time, it should set up the minimum standards of services and prices.
2. Invite social supervision over the control of noise and chemical poisons.
3. Protect the consumers by laws concerning food, drugs, and so forth.
4. Support industrial development by, for example, backing research in sophisticated technology and constructing harbors and canals.
5. Support foreign trade. If any enterprise in Shenzhen desires to enter the international market, the government should have the responsibility of giving it every support, in the same way the trade development bureau of Hong Kong helps the enterprises in publicity work and holding exhibitions abroad.

#### IV

In the process of the national economic structural reform, the question of the government's economic administration has continued to attract people's attention and produced a far-reaching chain reaction. The SEZ must take its place in the forefront of activities in the national economic structure. This is not only the subjective wish of the people in the SEZ, but also an objective necessity. The achievements of the Shenzhen government in the past several years are there for everyone to see. Some of the government functions enumerated in this article are being performed remarkably, but all its defects are being fully revealed precisely because it is ahead of the nation in other reforms.

9411/12624

CSO: 4006/433

LABOR AND WAGES

PROMOTING LABOR SERVICES ABROAD URGED

HK140825 Beijing RENMIN RIBAO in Chinese 5 Jan 86 p 2

[Article by Liu Xiao [0491 7179] and Tong Guoping [4547 0948 1627]: "Lay Emphasis on 'Short, Inexpensive, and Fast'--Tentative Discussion on Developing Labor Services on a Contract Basis in Foreign Countries"]

[Text] Contracts for foreign projects and labor cooperation represent something officially put on the international market by our country since 1979. In the past six years, the number of companies committed to contracts abroad and labor cooperation has increased to more than 60, with activities in more than 70 countries and regions. More than 2,300 contracts have been signed, with a total value of about \$5 billion and over 160,000 labor service workers involved. A good reputation has been established in the international market. But this undertaking is only at its initial stage of development.

Develop Superior Features and Earn Foreign Exchange "In a Short Period and in a Cheap and Quick Way"

Modernization calls for foreign exchange. Many countries have adopted contracting for projects abroad and labor service cooperation as a way to improve a country's balance of international payments to increase foreign exchange reserves. Generally speaking, developing countries get involved more often with labor service cooperation abroad. Developed countries with relatively ample capital are relatively keen on contracting for projects. In the past few years, many companies in our country have paid their main attention to contracting for projects and have overlooked labor service cooperation as something trivial and producing small economic results." But a contract for a project calls for self-provided materials and equipment. Our country is already short of the "three kinds of materials" (rolled steel, timber, and cement) which are our main construction materials. Certain machinery and equipment also does not suit the needs of the international market. Materials and equipment genuinely exported make up only around 5 percent of what a given project calls for. One-third to two-thirds of hard-earned foreign exchange goes on materials and equipment bought from foreign countries. What is earned is basically nothing more than some labor service charges.

With the start of the 1980's, competition in the international project contract market intensified. Contractors are required to provide capital, with the other side being late in paying. Our country is not amply provided with funds. This restricts the development of our effort to contract for projects abroad, especially large-sized ones.

The features of labor service cooperation with foreign countries are: small investment, a short foreign exchange-earning cycle, and quick results, with "a harvest guaranteed in spite of drought or floods." Pakistan has sent out more than 2 million labor service workers, with an annual amount of around \$3 billion handed over to the state, 2 and  $\frac{1}{2}$  times as much as the foreign exchange earned by its exports. The total foreign exchange earnings from labor services of Egypt and Turkey make up 60 percent of the two countries' total foreign exchange receipts from exports. Those of Yugoslavia and Bangladesh account for around 40 percent.

Despite a slump in the international labor service market in recent years, the number of international labor service workers has still been maintained at around 9 million, with an especially sharp increase in demand for labor services in tertiary industry. The outlook remains very bright. Our labor resources have a good reputation in the world. Our labor service workers are conscious of discipline and prepared to work hard and to endure hardships. The charges for our labor services are relatively low. This is a superior feature of our country. But the number of people now sent abroad stands at only 50,000, around 0.5 percent of the total world figure for labor service workers. The potential is very great.

An overall analysis of international market trends and the conditions of our country shows that we should promote our strong points and get rid of our weaknesses. We must put the emphasis on enlarging labor service cooperation and obtaining more contracts for medium-sized and small projects. By various means, through various channels, and through involvement in multiple undertakings, we must fight to obtain results "in a short period and in a cheap and quick way."

Of course, well financed companies like the China architectural engineering company should also proceed from long-term interests where a share in the international market is concerned, and contract for large-sized projects calling for an advance of money. But they must act within the limits of their resources.

#### Nothing Should Be Done to Offset Acquired Benefits from Superior Features

The aim of fighting to obtain results "in a short period and in a cheap and quick way" is to earn more foreign exchange and to do so quickly, and to improve the economic results of labor service cooperation with foreign countries and contracts for projects. There are now two problems standing in the way of the development of superior features and the improvement of economic results. One is the continuous rise in the cost of domestic labor services. The other is a free-for-all among various domestic companies trading with foreign countries, as they try to undercut each other in their quotations.

The general manager of the China Highway and Bridge Construction Company said: Originally we could beat our competitors abroad with our relatively low labor service costs. But now outlays for workers sent abroad have been going up incessantly. Clothing expenses have doubled or tripled. Engineers' pay has tripled. Wages for workers have gone up 2 and ½ times. In addition, living expenses, spending on food, premiums for overtime, bonuses, and traveling expenses have risen accordingly. There is a trend toward an inexorable rise. At present, the costs of our labor services are more than 100 percent higher than those of the Philippines, India, Pakistan, and other countries.

Factors accounting for the rise in costs are both rational and irrational. Foreign labor service workers are not particular about dress. But all of our people working abroad are armed with several Western suits. A manager said that the fanciest neckties in the Beijing department stores have been almost "all snapped up" by labor service workers. Why, in fact, must workers working abroad be dressed in the Western style?

At present, of the 60-odd companies involved in contracting for foreign projects and labor service cooperation, some are connected with ministries and commissions at the central level and some are at the provincial and municipal levels. There is no coordination among these companies. It often happens that when one company has basically finished negotiating a deal, another undercuts it by quoting a lower price, with "outsiders standing to benefit."

Companies connected with ministries and commissions at the central level were originally devoted to business in their given fields. For example, those in charge of harbors took care of ports and wharves. Those connected with construction were in charge of civil engineering. Now, given diversification, boundaries have been crossed. Provincial and municipal companies are mostly of a comprehensive nature. Given lack of effective management and coordination, the more companies the poorer the benefits. It should be made clear that this is our guiding idea. We are not meant to scramble for contracts. Instead, we are supposed to earn foreign exchange and do so quickly.

#### Rely on Talent and Flexible Methods of Operation

The low quality of labor service workers has cost us many opportunities to earn foreign exchange. In 1981, Italy wanted to recruit 15 road construction engineers from Sichuan of a given age and with a knowledge of English. Sichuan, with a population of 100 million, could do nothing. In the past 1 or 2 years, some countries in the Middle East and Africa have cordially invited our country to send over engineering and technical personnel with a knowledge of foreign languages. They have even suggested that whole factories and hospitals be placed under our management. These offers have mostly been turned down because of our lack of ability.

It has now become a trend for the percentage of technical labor to rise and that of simple labor to drop. But our country at present still focuses on simple labor service cooperation and is short of managers, economists, accountants, designers, legal advisers, price calculation experts, and other advanced skilled personnel needed in the international market. We need a large number of engineering and technical personnel who know more than one foreign language and who understand how computers work. We also need ordinary labor service workers who have a rudimentary knowledge of a foreign language and are specialized in a given field.

To solve the problem of shortage of talent, various companies trading with foreign countries must, on the one hand, strengthen the trading of skilled personnel. On the other hand, they must tap more social potential, establish relations of long-term cooperation with various educational organs, and step up the pace of training. Meanwhile, they must reform the system of using workers, widen the scope for the recruitment of talent, and employ open recruitment of ideally competent persons from society.

The international market is changeable. In business, we cannot stick to one given method. We must be flexible and quick to adjust. Now various companies generally know that our methods of operation are too inflexible and too simple. For example, many countries suggest paying for labor services in local currency or in kind--such as petroleum. This clashes with our current practice of doing business on a cash basis. As a result, many contracts have been lost. If we are more flexible and combine contracting for labor services with trading exchanging offered commodities and local currency for hard currency on the international market in an indirect manner, we can then add greatly to the number of contracts received. Also, given our shortage of funds, some companies have adopted the method of involving foreign companies in joint operations, with labor provided by us and funds by the other side. Joint tenders are put forward on a risk-sharing basis. Such a method is undoubtedly to be recommended.

There is great potential in our effort to enter into labor service cooperation and contracts for projects with foreign countries. The important thing is that we must adjust to international market changes and work out the correct strategy for development, pushing forward in the face of difficulties.

/9738

CSO: 4006/584



LABOR AND WAGES

COMMENTARY URGES PROMOTING LABOR SERVICES ABROAD

HK140829 Beijing RENMIN RIBAO in Chinese 5 Jan 86 p 2

[Short Commentary: "Do a Good Job in Exporting Labor Services"]

[Text] Earning more foreign exchange is a major issue bearing on modernization as a whole. The departments concerned must hone their skills to earn foreign exchange as quickly as possible.

At present, the potential of foreign exchange receipts from sources other than trade cannot be underestimated. We entered the international market only a few years ago, as far as labor service cooperation and contracting for projects are concerned. Things are in an initial stage of development. To earn more foreign exchange for the state in this area, the most fundamental thing is to give full play to our own superiority.

To earn more foreign exchange, we must proceed from reality, drawing on our strong points to make up for weaknesses. Our country has a very abundant supply of labor. Our national conditions and resources determine that we should at present give priority to the development of labor service cooperation with foreign countries. Concerning contracts calling for self-supplied materials and equipment and financial advances, we should act according to our capability. If we should disregard our national conditions and force ourselves to do what is difficult, we would be placed in a passive position.

In developing labor service exports, the important thing is to improve the quality of laborers. At present, the quality of workers sent out by our country still falls far short of the demands of the international market. Due to their poor quality, we have been forced to forego many opportunities to earn foreign exchange. This is quite deplorable. To really develop our strong points, we must pay attention to investing in training skilled personnel. To attain the goal of supplying the international market with a highly competitive labor service force, we must do a good job of training.

To develop labor service cooperation, we must obtain more contracts. But we must not engage in a free-for-all, trying to undercut each other. Among various companies trading with foreign countries, a relationship of partners should be developed. Nothing should be done against each other so that available benefits become lost. At present, this must arouse our particular attention.

LABOR AND WAGES

XIZANG TRADE UNION WORK CONFERENCE OPENS

HK101018 Lhasa Xizang Regional Service in Mandarin 1130 GMT 6 Jan 86

[Text] On the morning of 6 January, the regional conference on trade union work opened in Lhasa. Attending the conference are the chairmen of all prefectural and city trade unions in the region and responsible persons of all departments, bureaus, and committees, the regional offices in Chengdu and Golmud, and the trade unions of all universities and colleges in the region, totaling some 100 people.

(Qiong Da), vice chairman of the Regional Trade Union first conveyed the spirit of the 3d meeting of the 10th executive committee of All-China Federation of Trade Unions and the national forum of enterprises on ideological and political work. He stressed: It is necessary to simultaneously grasp the building of material civilization and spiritual civilization and to run homes for the workers well. He also put forward demands on doing trade union work in our region in the new period well.

On the basis of summing up the experiences in trade union work in our region over the past 2 years and in going further in negating the cultural revolution, in eliminating leftist ideological influence, and in straightening out the ideological line put forward by enlarged meeting of the Regional CPC Committee Standing Committee, as guiding ideology, this conference will further eliminate leftist ideological influence on the trade union work front and regard the study of the role and functions of trade union work as the central subject under discussion.

This conference is very important for giving better play to the role of the trade unions in the four modernizations and reform of the economic structure in our region and will play an active part in creating a new situation in our region's trade union work.

/9738

CSO: 4006/584

LABOR AND WAGES

JIANGXI TO HIRE SOCIAL SCIENTIFIC EXPERTS

OW111216 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 9 Jan 86

[Text] Preparations for instituting the system of hiring social science personnel, professionals, and technicians are actively underway in our province.

In line with the arrangements by the central and provincial leading groups for job titles, our province has set up the Jiangxi Provincial Screening Committee for Hiring Social Science Personnel, Professionals, and Technicians. Forerunner units of various professional and technical fields have been designated and organs in charge of coordinating the implementation of this system decided on. Investigations have been made on the numbers, distribution, and structure of professionals and technicians, past evaluation of job titles, and the demands of various categories of professionals and technicians. A foundation has thus been laid for all-out implementation of the system of hiring professionals and technicians.

Currently, the provincial labor and personnel bureau and the forerunner units of all categories of social sciences, professionals, and technicians are revising the Jiangxi Provincial Implementation Plan for the System of Hiring Social Science Personnel, Professionals, and Technicians and the implementation plans for the system of hiring all categories of professionals and technicians. Units will be then selected to experiment with the new system.

/9738

CSO: 4006/584

LABOR AND WAGES

PROVINCIAL TRADE UNION'S ENLARGED SESSION ENDS

HK110244 Changchun Jilin Provincial Service in Mandarin 2200 GMT 10 Jan 86

[Text] The four enlarged plenary session of the seventh provincial Trade Union Council ended on the afternoon of 10 January.

The session called on the broad masses of workers throughout the province to extensively carry out activities on making contributions to the Seventh 5-Year Plan and performing meritorious deeds. It called on the trade union organizations at all levels to deeply and extensively carry out mass activitization contributing to the four modernizations. The industrial, communications, and capital construction fronts should exert efforts to improve product quality, reduce the consumption of materials, accelerate the circulation of funds, and develop new products. In line with the actual situation in the various enterprises, we should carry out a general discussion on how to contribute to the Seventh 5-Year Plan, suggest ways for reform, and strive to make each and every worker increase income and reduce expenditures by 100 yuan annually on the basis of fulfilling the state plans.

The financial and trade fronts should extensively carry out activities on vying to be the best service showcases and the best service workers.

The broad masses of workers on the cultural, educational, and public health fronts should make active efforts to promote the socialist spiritual civilization.

The session put forward that this year the province will carry out selective trials to choose the best pacesetters who have made contributions on various fronts. The session expressed the hope that the broad masses of workers will actively participate in this drive and will vie to be pacesetters and the very best in contributing to the four modernizations.

The session called on the trade union organizations at all levels to fully display their favorable conditions and characteristics; conduct education on the current situation, policies, ideals, and discipline among the broad masses of workers; continue to enhance their political awareness

and their cultural and professional level; and make active contributions to achieving remarkable improvements in party style and social conduct.

The session elected Comrade (Geng Guoliang) as chairman of the provincial Trade Union Council, and Comrade (Li Huiling) as vice chairman.

On the afternoon of 10 January, Wang Xianjin, deputy secretary of the provincial CPC Committee, and (Du Qingling), member of the Standing Committee of the provincial CPC Committee and director of the organization department, attended and addressed the session.

/9738

CSO: 4006/584

## LABOR AND WAGES

### LABOR FORCE 'RESERVOIR' PLAYS MAJOR ROLE IN SOCIETY

Beijing LIAOWANG ZHOUKAN [OUTLOOK WEEKLY] in Chinese No 44, 4 Nov 85 pp 23-24

[Article by He Yanping [0149 4291 1627]: "The 'Reservoir' of Society's Labor Force"]

[Text] The establishment of labor service companies as a new type of labor organization in society has demonstrated to an increasing extent the functions which can be performed by the "labor reservoir" for the adjustment of the labor force in society. In recent years, under the organization and management of labor service companies in various areas, 8 million members of the labor force have found employment throughout the nation. In 1984, the number of people helped by labor service companies to find employment constituted 20 percent of the total contingent of newly employed workers. The contributions such companies have made in finding jobs for young people in the cities and towns are absolutely essential.

In the early period in the readjustment of the national economy in 1979, the state was not in a position to offer employment to the increasing number of young people waiting for jobs in the cities and towns. Under the circumstances, the governments at various levels and the enterprises began to organize young people awaiting employment and the children of staff workers to perform labor services while undergoing training and to establish and develop labor service companies on various scales in order to accommodate the labor force.

Following several years of development, these service companies, which started out merely as organizations helping young people to find employment, gradually evolved into organizations with features peculiar to China for the overall management of surplus labor and came to be known as labor "reservoirs."

### Need for Adequate Control Over the "Sluice Gate" of the "Reservoir"

This reservoir performs the function of absorbing and providing an outlet for the labor pool. First of all, those awaiting employment are stored up in the labor service companies, absorbed by the economic entities established by such companies, placed in training centers prior to their employment, or engaged in labor services on a temporary basis. These are the methods by which an outlet is provided by service companies for the labor force.

This process of absorption and egestion of labor goes round and round to form a benign cycle. To ensure that this process proceeds in a proper manner, it is necessary to have a firm grasp of the labor situation and the needs of society. In other words, it is necessary to exercise effective control over the sluice gate of the reservoir. The labor service companies in both the city of Zhangjiakou and Guangdong Province have done well in this respect.

In order to exercise more effective control over the employment situation in the city, the Zhangjiakou Labor Service Co established a rather well-organized system of issuing labor service cards. It also engaged in the work of investigation into the needs of society. In view of the backward state of development of tertiary industry in the city, it organized over 20,000 young people awaiting employment into over 300 labor teams in the commercial sector, the food and beverage network outlets, the industries, construction and installation, loading and unloading and the moving services. Furthermore, 6,000 to 7,000 temporary workers are kept in reserve throughout the year to meet the seasonal needs of the construction materials enterprises, the municipal administration and the vegetables companies.

If control over the "sluice gate" of the "reservoir" in Zhangjiakou is made possible by exercising centralized control according to a plan, then the "sluice gate" controlling the circulation of labor in Guangdong Province is mainly adjusted by the labor market.

According to Lin Jiaoxiao [2651 0679 1321] of the Guangdong Labor Service Co, the gradual establishment of a labor market in Guangdong was made possible because the province had been opened up at an earlier date and the market economy was in a more prosperous state due mainly to the large demand for labor following the import of foreign capital by the special zones. At present, practically all the cities, prefectures and counties in the province have established labor service companies while the Shenzhen SEZ and the Zhu Jiang delta have established mobile labor markets. In Guangdong, the concept of employment has undergone a vast change. In the eyes of the people, there is no difference in the advantages and disadvantages between state, collective and individual enterprises. What matters is whether one can put one's talent to good use. It is this concept which has made possible the movement of personnel. The job of the labor service companies is to act as go-betweens for the mobile labor force. Naturally, the question as to how to reduce the aimless movement of the labor force and to achieve a measure of flexibility in an orderly manner is a new problem with which the labor service companies will have to concern themselves.

#### The Need To Strengthen the Functions of the "Reservoir"

The difference between labor service companies and ordinary enterprises engaged in production is the mobility of the labor force of such companies. Last Year, the Changchun Automobile Manufacturing Co stood in need of a large number of workers conversant with new technologies for the remodeling of motor vehicles. The labor service company used by the factory was able to supply over 800 young workers who proved themselves equal to the task. However, this movement of workers inevitably represented a loss to the labor

service company itself. Thus, a contradiction has been created. Some of the service companies which have failed to deal with this contradiction in a proper manner have been liquidated or have failed to perform their functions as "reservoirs." How should this contradiction be resolved? According to the person in charge of a labor service company, the supply of labor is an unshirkable responsibility of labor service companies and what matters most is the service which they can render society. In order to improve the functions of the "reservoir," the labor service companies must have their own economic power. The purpose of these companies, however, remains the supply of labor services for developing production. Not long ago, the product exposition held by the National Labor Services Co in Beijing showed what it had achieved in that respect. According to the person in charge of the company, the labor service companies, 8 years after their establishment, have produced a total of 15.7 billion yuan in their production operations, made a profit of 2.27 billion yuan and paid taxes amounting to 1.7 billion yuan. These labor service companies have not only performed the function of taking up the slack in the development of the national economy, but also greatly increased the capability of the "reservoir."

Once equipped with funds and vested with power, these labor service companies will be in a position to provide various kinds of technical training to upgrade the quality of the labor force waiting to be released from the "reservoir." At present, there are close to 800 training centers offering training to 8 million people. Xi'an, the first city to establish training centers, has now established a multileveled training network with labor service companies as its mainstay, vocational schools as its foundation, training centers as its backbone and the democratic parties and schools established by various organizations in society as its supplementary constituents.

The supply of family labor services is also one way in which the labor service companies can find jobs for people awaiting employment. It makes possible the deployment of the surplus female labor force in the rural areas. Advantage is also taken by Guangdong Province of the abundance of labor in our nation to develop the export of labor to foreign countries. In recent years, 4,000 laborers have been assigned to 15 countries and regions. They have earned over \$10 million in foreign exchange and won high praise internationally.

#### Establishment of a Link Between "Small Reservoirs"

The reporters were told by Hua Yinchang [5478 5593 2490], director of the Training Bureau of the Ministry of Labor and Personnel, that several years ago, it was the main concern of the labor service companies to find jobs for young people awaiting employment, but that it would be necessary to deal properly with the surplus workers within the enterprises if the problem posed by the wastage of labor in the entire society is to be resolved. From the individual point of view, a person is not likely to be able to cope with the same type of work throughout his life. The physical strength of female textile workers, for instance, tends to decline after the age of 35. It is not advisable for mine workers over 40 to go down to the pits. Where should



these people go? While some insist on holding on to their jobs, those who have been sent to reception offices and parking lots are often not able to perform their assignments well. From the society's point of view, readjustments have to be made by the industries on a routine basis because large numbers of people have to be moved from one job to another. For this reason, there is an urgent need for an organization responsible for the overall adjustment of the labor force in society.

Hua Yinchang is of the view that the socialization of the labor service companies of the enterprises is one way to resolve the problem. At present, the labor service companies of the enterprises have different systems of their own. If a link can be established between the various "small reservoirs" of the enterprises and the "large reservoirs" in society, the mobility of the labor force will be greatly strengthened, the freedom of choice of employers and employees will be increased and the initiative for the deployment of personnel and the rate of labor productivity will be greatly invigorated.

9621/12948

CSO: 4006/389

HONG KONG

UPHOLDING OF HONG KONG AS WORLD FINANCIAL CENTER

Hong Kong TA KUNG PAO in Chinese 15 Nov 85 p 5

[Article by Jiang Wengui [5592 2429 2710], vice chairman, Board of Directors, Bank of China, on the occasion of the 85th anniversary of the Hong Kong Chinese General Chamber of Commerce: "Work Hard To Preserve Hong Kong's Status As World Financial Center"; reprinted from GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] No 4, 1985]

[Text] That Hong Kong has developed into an international financial center is a fact acknowledged by the whole world. Its financial operations cover the entire Asian and Pacific region. It has established close relations with the various international financial centers in Europe and the United States. The continued upholding of Hong Kong as an international financial center is the hope of all the people of Hong Kong and something toward which they are directing their tireless efforts because it would serve to promote the economic development of the Asian and Pacific region, the economic relations between the nations in the west and the various nations in the Asian and Pacific region, the economic construction of our nation and, more important still, to enable the 5 million people in Hong Kong to bring about a greater measure of stability and prosperity to the island.

Can Hong Kong uphold its position as an international financial center? How should we go about upholding its position? These are matters of concern for everybody. While the first question is not one that can be determined by the will of the people, the second can be resolved by their subjective efforts.

Whether Hong Kong can continue to uphold its position as an international financial center during the 12-year transitional period or even after 1997 is determined not by the will of the people but by objective economic and political factors. From the economic point of view, can the economy of Hong Kong continue to develop and, in particular, can the industries continue to prosper? From the political point of view, can the political situation continue to maintain its stability and are the policy measures correct and proper? The economy of Hong Kong has, within the last 10 to 20 years, evolved from the purely consumer type to one that is dominated by production. The preponderant industrial economy has brought about the further development of tertiary industry. This is a healthy type of economy. In future years, there is no reason for Hong Kong to revert to the purely consumer type of

economy. On the contrary, it will gradually develop into a healthier production type of economy with industries as its mainstay that is capable of further speeding up the development of tertiary industry, such as commerce, finance, tourism and the service trade, thus making it possible to further modernize and internationalize its entire economy. Naturally, the economy of Hong Kong is a dependent one highly susceptible to the effect of changes in the international market. This, however, is not a major problem, because the present-day international economy, as a result of the speedy development of the scientific and technological revolution, has cut across national and regional boundaries and evolved into a world economy so that any nation or region that still chooses to adopt a closed type of economy will be left behind. Having adopted the open type economy, Hong Kong naturally has to depend on the economy of the various nations and regions in the world for its existence. There is nothing wrong with that. Although the rise and fall of the international market cannot but have an effect on Hong Kong, Hong Kong can, nevertheless, take advantage of its positions of strength to make further gains when the international market is on the rise and minimize its effect when it is on the decline. Furthermore, with the further strengthening of economic relations between Hong Kong and China, the economy of Hong Kong will stand to benefit from the accelerated development of China. The political situation in Hong Kong will tend to stabilize after the Joint Sino-British Statement has come into effect and the policy of Hong Kong will remain unchanged. All that goes to show that the position of Hong Kong can be upheld as an international financial center.

How the position of Hong Kong can be upheld depends on our efforts. Certain issues, however, merit special attention.

First is the stability of the Hong Kong currency. Since the Hong Kong currency is not one of the major currencies in the world, it is not too widely used and therefore relatively easy to control. Theoretically, so long as the economy of Hong Kong does not go downhill, there is no reason why the Hong Kong currency should not remain stable. However, in view of the fact that Hong Kong is already an international financial center free from foreign currency controls, the Hong Kong currency is bound to be affected by the international foreign exchange market. That is so especially in view of the intensive speculative activities prevailing in the international foreign exchange market and the likelihood of high waves being whipped up even in the absence of a high wind. That is why the maintenance of the stability of the Hong Kong currency has become a problem. Two years after the adoption of the system of pegging the value of the Hong Kong currency to the value of other currencies, it appears to be the system best calculated to maintain the stability of the Hong Kong currency and that it should not be changed without valid reasons.

Second is the soundness of financial operations. In the course of the last 3 years, the Hong Kong Government, with a view to putting the structure of financial operations on a sound basis, has adopted a number of measures, the most important of which is the three-tier financial system, which seems to be working well. It should be noted that, in putting the financial operations in Hong Kong on a sound footing, major effort was made in the

past to control the excessive expansion of credit and serious effort should continue to be made to perfect the financial system. There are still loopholes in the present financial system which should be plugged. Supervision should be strengthened over the illegal operations of members of the boards of directors. There is considerable difference of opinion on the pros and cons of the system of deposit insurance which has been adopted by many countries. I agree that it is a good system for protecting the banks with limited capital from being victimized by bank runs occasioned by rumors. The situation in Hong Kong, however, is special. The overwhelming majority of the 140-odd banks have the backing of large international banks and the only banks susceptible to being buffeted by the elements are a few banks financed by Chinese capital. It is extremely difficult to come up with a fair and reasonable deposit-insurance system that is acceptable to all the banks. It appears that this problem cannot be easily resolved by the banks themselves and that the Hong Kong Government should weigh the entire range of financial operations in Hong Kong and decide whether to draw up a deposit-insurance system or to solve the problem by agreeing to take over the banks that experience financial difficulties. However, regardless of whether or not there is a deposit-insurance system, it is my opinion that two matters deserve serious consideration. First, the department of the Hong Kong Government responsible for exercising supervision over financial operations should strengthen its supervision over banking operations and take all precautionary measures to see that the operations of all the banks, large and small, are on a sound basis in order to set the minds of depositors at ease. Second, there is need for a rediscount organization. At present, the functions of a central bank in Hong Kong are being assumed by various departments of the Hong Kong Government and the commercial banks, but there is no department in charge of rediscount operations which should be the responsibility of a central bank. When the banks are confronted with a shortage of circulating funds or when there is a run by the depositors, rediscount operations can be used to tide them over. That is one shortcoming in the financial operations in Hong Kong. There are many leaders in banking circles who favor the organization of a "rediscount window" among themselves. That is a good idea to which I can give my support. However, instead of establishing such an organization by people in the same trade, it would be better for the Hong Kong Government to draw up the relevant laws and regulations and to make a particular department responsible for engaging in rediscount operations which should be performed by a central bank and which should be the responsibility of the government.

Third is the further opening of the financial market and the need for more flexible operations. As an international financial center, Hong Kong must open up to the outside world. It is believed that during the 12-year transitional period, the Hong Kong Government will continue to pursue the existing open door policy and to uphold the position of Hong Kong as an international financial center. In the joint statement on Hong Kong issued by the Chinese and British governments, the Chinese Government made it clear that the financial enterprises will continue to have freedom in their operations, that funds will be permitted to be imported and exported freely, that no control will be exercised over foreign exchange and that the foreign currency, gold, negotiable securities and futures markets will continue to

open. All that is essential if Hong Kong is to be upheld as an international financial center. One major flaw in the market operations of Hong Kong as an international financial center is that the extremely underdeveloped second market has had an adverse effect on the circulation of negotiable securities and commercial bills. During a certain period in the past, the financial market in Hong Kong did not go through a stage marked by the excessive inflation of credit, a situation which calls for rectification. This, however, is not as serious a problem as it used to be. Since the beginning of this year, the banks and businesses have made increasing use of bank deposit certificates, bonds and commercial bills to raise funds. The scope of circulation, however, is limited to within the financial organizations themselves instead of being enlarged to encompass the entire society to open up another channel for the accumulation and distribution of idle funds in society in the absence of second-market operations. Unless this problem is resolved, all the bank deposit certificates and the issuance of bonds will be rendered inoperative when the financial organizations have reached their point of saturation. This is a matter that calls for legislative control departments of the government and the banks.

9621/12948

CSO: 4006/388

HONG KONG

#### HONG KONG DOUBLES MACHINERY SALES TO PRC

HK130429 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 13 Dec 85 p 6

[Text] Hong Kong sales of machinery and spare parts to China in the first nine months of the year rose a whopping 119 percent to \$1 billion, according to a Trade Development Council [TDC] report.

The report says the biggest gains in both value and percentage terms in the period came from machinery for the plastics industry, which totalled \$218 million, a 267 percent rise on the year-ago period.

Next by value was electrical parts for printed circuits, switchboards and control panels, sales of which rose to \$119 million, up 67 percent, followed by \$103 million in sales of non-electric machinery, a climb of 127 percent.

"This is an encouraging development," says the report, "especially at a time when China is restricting imports by tightening control on foreign exchange."

The report says Hong Kong's domestic exports of the sector to China have shown uninterrupted growth in recent years.

The most recent rise follows an increase of 101 percent last year.

Citing China customs figures, the report says Hong Kong's exports in the first half accounted for 13 percent of the country's total imports of that sector.

Again citing Chinese sources, it says Hong Kong-made machinery is well-received on the mainland.

Price, however, plays the major role. The report says Hong Kong-made plastic machines are reported to be 40 percent cheaper than comparable products from Japan.

It notes that China's ongoing clampdown on foreign currency spending does not affect machinery since the sector is considered essential to the country's industrial development.

Also included in the report are TDC estimates of foreign reserves for selected Chinese provinces and cities this year.

Shanghai tops the list, with U.S. 1.3 billion, followed by Tainjin with \$575 million, Jiangsu \$540 million, Shandong \$415 million, Beijing \$250 million, Hunan \$130 million, Balian \$125 million, Sichuan \$100 million and Wuhan \$75 million.

These figures exclude invisible earnings, such as overseas remittances, tourism and any cash from exports, the report says.

The TDC also estimates that China has set up about 200 trading companies in Hong Kong to promote foreign trade since 1979, the majority coming from neighboring Guangdong and Fujian.

/9738

CSO: 4020/177

HONG KONG

GROSS DOMESTIC PRODUCT GROWTH REPORTED SLOW

HK220130 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in English 21 Dec 85 p 1

[Article by Chito Santiago]

[Text] Hong Kong's economy is growing at a slower pace than had been anticipated by the government and this year's gross domestic product [GDP] expansion will probably be less than four percent.

This was the assessment given by the financial secretary, Sir John Bremridge, when he spoke at a press conference held yesterday.

This figure represents a further downward revision in his forecast for Hong Kong's GDP growth for 1985.

In his mid-year review of the territory's economic performance which he delivered in September, he projected the growth rate would be between 4.5 percent and 5 percent compared with his budgetary projection of 7.2 percent.

Hong Kong's real economic growth in 1984 was put at 9.6 percent.

Sir John said it was obvious exports had not picked up as expected. Domestic exports in the first 10 months of this year fell by 10 percent from a year ago to \$106.1 billion.

He blamed this on weak overseas demand, especially in the U.S. which absorbs about 45 percent of Hong Kong's exports.

Another reason was the strength of the Hong Kong dollar as a result of its link with the U.S. unit.

Sir John said this strength was a handicap, particularly in the first half of this year.

He said the effect of the intervention by the "Group of Five" to lower the value of the U.S. dollar would not be felt in Hong Kong probably until the first quarter of 1986.



He also cited the lack of major public works activities, which constitute a major portion of the GDP, especially in the latter half of the year.

Sir John said the big projects were now finished, among them the Mass Transit Railway Corporation's Island Line. However, he pointed out that a number of major projects for next year were now in the pipeline, including the Eastern Harbour Tunnel, the contract for which was awarded earlier this month to a Japanese-led consortium.

Sir John reiterated his concern about the lack of reinvestments in Hong Kong, especially in new plants and equipment. He blamed this slack to the uncertainties posed by the now vetoed Jenkins Bill. However, even as this bill is now out of the way, at least for the moment, investors are still playing a waiting game as they shift their attention to the negotiations over the new Multi-Fibre Arrangement [MFA] next year. "The negotiations over the new MFA will be very hard indeed," Sir John said.

He also projected a smaller-than-forecast budget deficit in the current fiscal year ending 31 March, 1986, and a moderate surplus in 1986-87.

In his address to the Legislative Council last week, he ruled out higher taxes and emphasized that the strategy was to hold down growth in public expenditure which has now slipped from over 19 percent to less than 16 percent of the GDP.

Provided the increases in percentage terms in real expenditure do not exceed the GDP growth rate over time, he could see no reason for further increments in taxation as opposed to merely keeping up with inflation. However, he ruled out the elimination of taxes on soft drinks and cosmetics.

On the banking sector, Sir John brushed aside the suggestion that the present situation was rather chaotic in view of the collapse of the Hang Lung Bank and the Overseas Trust Bank [OTB] as well as the difficulties plaguing the smaller banks.

Commenting on the move by Wing On Bank and Ka Wah Bank to seek new partners, he said: "I think there will be a tendency among smaller banks to enter into mergers or seek larger partners. Banking is very competitive in Hong Kong."

He also repeated the Government's aim of returning the Hang Lung Bank and the OTB Bank to the private sector.

Morgan Guaranty has now submitted its findings on Hang Lung to the Secretary for Monetary Affairs, Mr Douglas Blye. Sir John pointed out there was no hurry over this as the government wanted to get the highest price for the bank. "Hang Lung Bank will be sold in due course," Sir John said. But the OTB, he added, will take three of four years to clean up.

He also said the government had asked that a tribunal be set up to look into shareholders' request for compensation.

/9738

CSO: 4020/177

HONG KONG

# BUSINESSMEN TO MEET PRC FINANCE OFFICIALS

HK220644 Hong Kong SOUTH CHINA MORNING POST (SUNDAY BUSINESS supplement)  
in English 22 Dec 85 p 1

[Article by Jack Spackman]

[Text] Businessmen from Hong Kong will have a chance soon to talk directly to the people who shape China's financial and economic policies.

High on the list of topics they will discuss is foreign currency controls, a subject of enormous interest to China's trading partners.

"From these discussions could come ideas for China to fine tune its open-door policy," says Mr Anthony Yung, one of the organizers of potentially the most important China conference yet held.

Subjects of major concern to foreign investors including tax, the enforceability of contracts and China's current foreign currency reserves policy, will come under the spotlight.

Vice-ministers, directors and advisers head the list of Chinese officials who will be there for scrutiny by leading bankers, businessmen, lawyers and government people from Hong Kong and beyond.

China's top tax man and top accountant will be there, according to the organizers, as well as senior Ministry of Finance people, including the policy chief for exchange control.

China's foreign currency reserves will be a hot topic. They are a matter of prime concern not only to China but also to its many trading partners.

China's dilemma: How to prevent any further drastic running down of its reserves without stopping the drive to modernize its industries?

China wants to relax the rigid rules on foreign currency spending which were imposed early this year, according to people who have talked to Finance Ministry officials in Beijing. But it wants to avoid, at all costs, running into the type of debt mountain which currently plagues so many developing countries.

"The world is waiting for China to relax its controls and China wants to relax them," said Mr Yung. "It is quite possible that some of the suggestions to emerge from our conference will help the policy planners to devise a suitable strategy in this matter."

China has a firmly stated policy which aims at quadrupling its national output by the year 2000.

"They know that they must continue to import technology and expertise to reach that goal, but they are determined to devise a systematic method of controlling the outflow of the country's vital reserves," said Mr Yung.

China's foreign currency reserves early last year stood at US \$17 billion. By April this year, following an imports rush, they had slumped to \$11.5 billion.

That's when the central government in Beijing stepped in and virtually sealed off foreign purchases for all but the most essential items.

A direct result has been a piling up in Hong Kong warehouses of thousands of tons of products--particularly household electrical goods, motor vehicles, even 35 mm film, worth billions of dollars.

Local traders and manufacturers might not agree, but China believes its policy toward its reserves is a sound one.

At the same time, the planners in China appreciate that the freeze of foreign spending has hurt the modernization program and therefore must be relaxed eventually.

The conference, from 28 February to 1 March in Guangzhou, is a joint effort of the Hong Kong Society of Accountants and the Accounting Society of China.

But it will not be an event for accountants only. Nor will the discussions be limited to accounting matters.

"Quite the opposite," said Mr Yung, the Hong Kong co-chairman of the organizing committee. "What we will be talking is business, and how to generate more of it."

The principal focus will be on investment, with experts speaking on the many accounting, financing, legal, taxation and foreign exchange problems facing foreign investors in China.

The conference will be limited to 300 attendees, half from China and half from Hong Kong and overseas.

The 150 delegates from within China will be selected by the Ministry of Finance and will come from planning bodies, ministries and other organizations all over the country.

Among Chinese officials listed to address the conference are Mr Xi Yuanping, governor of Guangdong Province; Prof Xu Yi, adviser to the Economic Research Centre of the State Council; Mr Xie Ming, adviser to the Ministry of Finance; Mr Gan Ziyu, vice-minister of the State Planning Commission; Mr Jing Shuping, president of China International Economic Consultants Inc; Mr Yang Jiwan, vice-chairman and secretary-general of the Accounting Society of China; Mr Chen Quangeng, chief of the policy research division of the State Administration of Exchange Control; Mr Liu Zhicheng, adviser to the General Taxation Bureau of China; Mr Chen Baosen, research fellow at the Institute of American Research at China's Academy of Social Science Studies; Mr Yan Zekiu, vice-president of China Consultants of Accounting and Financial Management Inc; and Prof Lou Erxing, chairman of the accounting department of the Shanghai Institute of Finance and Economics.

A major objective of the conference will be to generate ideas for China to review its standards in accounting and financial management, to cope with the modernization program.

"China recognizes that it must make changes and improvements," said Mr Yung.

Nowhere is this more evident than in China's drive to increase its number of certified public accountants from 1,000 today to 10,000 over the next five years. Hong Kong has 850 CPA's among its 3,000 qualified accountants.

The seeds for next year's conference were sown in June when a delegation from the Hong Kong Society went to China to discuss matters of mutual interest and concern with their counterparts from the Accounting Society of China.

The status of accountants in China has been greatly elevated in the past few years. Previously, they were regarded as clerks who kept records and did not bother much about things like profit.

China's open door policy, which has attracted hundreds of foreign joint ventures, and the new profit-motivated attitudes of all Chinese business operations, have put accountants in a much more important position.

The role now, like many of their counterparts elsewhere, is to be involved in projects right from the start.

They now help bring joint venture partners together, help with negotiations and agreements, and then set up the financial systems.

Their workload has increased recently. About 900 foreign joint ventures have been established in China this year, equal to the total for the five previous years.

The organizers believe the conference will present an unprecedented opportunity for foreign businessmen and officials to establish contacts in China.

"Anyone wanting to meet this number of important officials would have to spend weeks, even months, travelling all over the country," said Mr Yung.

"We are worried that the 150 places we have to allocate will not be nearly enough, because the interest in the event is extremely high."

They have to limit the numbers to 300 because of the need for instant translation of all the speeches. The conference will be conducted in English and Mandarin, but not Cantonese.

Among the speakers from Hong Kong will be Financial Secretary-Designate Mr Piers Jacobs.

From the private sector comes Mr Antony Leung, a Citibank vice-president; Prof Steven Cheung of HKU [Hong Kong University]; Mr Anthony Russell of Hong Kong bank; Prof Peter Willoughby of HKU; Mr Derek Cheung of Johnson Stokes and Masters; and Mr Peter Barnett of the Peninsula Group.

/9738

CSO: 4020/177

HONG KONG

DOMESTIC EXPORTS FALL SEVEN PERCENT IN FIRST TEN MONTHS OF 1985

HK070753 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in English 7 Jan 86 p 1

[Text] The volume of domestic exports during the first ten months of 1985 declined by seven percent over the same period a year ago, according to official trade statistics released yesterday.

However, over the period total exports increased by six percent in volume terms following a 29 percent surge in the volume of re-exports.

Imports increased by six percent in volume terms. Over the same period, the prices of domestic exports remained unchanged and those of re-exports rose by two percent. Prices of imports dropped by three percent.

Comparing October 1985 with October 1984, the volume of total exports dropped by one percent comprising an increase of eight percent in the volume of re-exports and a decline of seven percent in that of domestic exports. Imports increased by four percent in volume terms.

Prices of domestic exports and re-exports dropped by four percent and one percent respectively, so that for total exports, prices decreased by three percent. Prices of imports decreased by two percent.

Extending the period of comparison to the 12 months ending October 1985 with the 12 months ending October 1984, the volume of domestic exports decreased by 6 percent, while that of re-exports increased by 29 percent, giving an increase of 7 percent in the volume of total exports.

Meanwhile, the volume of imports rose by 7 percent. Prices of domestic exports and re-exports rose, on average, by 2 percent and 3 percent respectively, while that of imports dropped by 2 percent.

Domestic export prices of many commodity groups fell in October 1985 compared with October 1984. These included radios of all kinds (down 12 percent); domestic electrical appliances (down 10 percent), metal ores and scrap (down 9 percent); textile fabrics (down 8 percent); footwear (down 8 percent) as well as watches and clocks (down 7 percent).

Increases in domestic export prices were recorded for some commodity groups such as electronic components (down 5 percent), travel goods, handbags and similar articles (3 percent) as well as textile yarn and thread (3 percent).

The domestic export volume of many commodity groups decreased in October 1985 compared with October 1984, the more substantial ones being metal ores and scrap (down 32 percent); radios of all kinds (down 31 percent); travel goods, handbags and similar articles (down 27 percent); textile madeups and related articles (down 25 percent); electronic components (down 20 percent) as well as domestic electrical appliances (down 19 percent).

However, increases in domestic export volume were recorded for textile yarn and thread (20 percent) watches and clocks (8 percent), footwear (6 percent) as well as textile fabrics (3 percent).

Import prices of some end-use categories decreased in October 1985 as compared with October 1984, ranging from 5 percent for raw materials and semimanufactures to 8 percent for foodstuffs. The import prices of consumer goods and capital goods both rose by 2 percent in October 1985 as compared with October 1984.

Many of the major imported foodstuffs increased in volume terms in October 1985 compared with October 1984. Significant growths were recorded for soya bean oil, peanut oil and lard, live poultry, tea and coffee, meat and meat preparations, milk, butter, cheese and eggs, fruit, rice as well as vegetables. However, decreases in import volume were registered for wheat and flour as well as sugar.

Over the same period, the import volume of many consumer goods increased, the more substantial ones being alcoholic beverages, watches, footwear, tobacco manufactures as well as clothing.

However, decreases in import volume were registered for radios, television sets, gramophones, records, tape recorders and amplifiers, household type electrical appliances, passenger motor cars as well as cameras, flashlight apparatus and supplies for photography.

The import volume of some raw materials and semi-manufactures rose in October 1985 compared with October 1984, including iron and steel, dying, tanning and coloring materials, watch and clock movements, cases and parts, cotton yarn and thread; special textile fabrics for industrial purposes; yarn of man-made fibers; woven cotton fabrics as well as wood, lumber and cork.

Decreases in import volume were noted for man-made fibers; wool and other animal hair; thermionic cathode valves and tubes, diodes, transistors and electrical microcircuits; yarn of wool and mixtures; crude animal and vegetable materials as well as plastic molding materials.

/9738

CSO: 4020/177

HONG KONG

PRC'S CITIC TO ASSUME MAJORITY SHARES OF HONG KONG BANK

HK081346 Hong Kong AFP in English 1253 GMT 8 Jan 86

[Text] Hong Kong, 8 Jan (AFP)--The troubled Ka Wah Bank here has reached agreement in principle for a Beijing-controlled investment concern to take a major shareholding in the bank, it was announced here today.

The China International Trust and Investment Corp (CITIC) will take a majority shareholding under an agreement for a capital reconstruction of the bank, the bank's financial advisers, East Asia Warburg, said.

It is the first time that China has moved in directly to take over a troubled financial institution in Hong Kong, observers noted.

Today's announcement did not indicate the size of CITIC's planned stake in Ka Wah, controlled by the Low family of Singapore, but market sources here put it as high as 90 percent.

Further announcements about the agreement will be made in the near future, the statement said.

The new agreement superceded an earlier possible arrangement, the announcement added.

Earlier today, market sources said that CITIC had stepped in when a Dutch financial concern, Amev N.V., appeared to have second thoughts about its part in a partial takeover bid for Ka Wah.

Last month, Ka Wah announced that it was negotiating to issue new shares to two investors, Amev and Kaihin Enterprises Co.--a 50-50 joint venture of Singaporean and Mainland Chinese interests.

/9738

CS0: 4020/177



## BRIEFS

STOCK MARKET RECORD HIGH--Hong Kong, 7 Jan (XINHUA)--Investors expect good profit growth from listed companies in 1986 as the market is still moving its way to a higher level after it closed at 1815.53 this afternoon. Howard Gorges, executive director of Sun Hung Kai Securities, one of the biggest stock brokers here, said that today's record was reached not as a result of any particular event of speculation, but as a part of accumulation. He described the present market as a sober one but not over-heated as compared with 1981 when the Hang Seng index closed at 1810.20, but dropped rapidly soon after. He said that the market is still moving its way up rather than topping out. The Hang Seng index at the end of last year was 43.6 percent up from the year before. [Text] [Beijing XINHUA in English 1617 GMT 7 Jan 86 OW] /9738

TRADE DEVELOPMENT COUNCIL OPENS--The Trade Development Council [TDC] has opened an office in Beijing--its first in the country. TDC's China manager W.H. Wong told BUSINESS NEWS a three-year lease was signed last week for the new premises, located in Beijing's prestigious CITIC [China International Trust and Investment Corporation] building. Mr Wong said the move, which had been under development for some time, got the nod from China's Ministry of Foreign Economic Relations and Trade. "It's a big move for the TDC," said Mr Wong, who will be running the 600 sq ft office with the help of one assistant. His title will be chief representative. The TDC has a busy program in China this year, with about six outgoing promotions to the country on the books. "The office will allow us to have someone in the country to handle the coordination. It should make things a lot easier." Hong Kong businessmen on trips to Beijing will also be able to visit the office for trade assistance, he said. [Text] [Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 23 Dec 85 p 1 HK] /9738

CSO: 4020/177

END